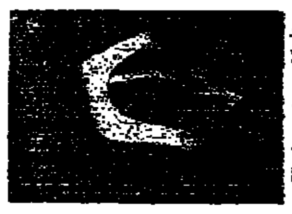

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High hopes as Brazilians vote
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Weekend FT
Search for a wonder of the age

FINANCIAL TIMES

Europe's Business Newspaper — FRIDAY SEPTEMBER 30 1994 — D8523A

Fiat recovers from record losses to $467m half-way

Italian industrial and automotive group Fiat reported interim pre-tax profits of L727bn ($467m) and said it was on course for a full-year net profit. The company, which suffered record losses of L1,783bn in 1993, said it was cautious about the depth of recovery in Italian car market, which accounts for 40 per cent of sales by the group's principal subsidiary, Fiat Auto. Page 17; Lex, Page 16

Five killed in Haiti bombing: At least five people died and 18 were injured in Port-au-Prince when a grenade exploded during a demonstration in support of ousted Haiti president Jean-Bertrand Aristide. UN asked to rethink sanctions, Page 4

Mitchell moves to speed trade legislation

Senator George Mitchell (left), Democratic majority leader in the US Senate, said he would hold a rare post-election session of Congress to win US ratification of the Uruguay Round trade legislation by the end of this year, but Senator Ernest Hollings, chairman of the Senate Commerce Committee, stood by his intention to delay the legislation. Page 16; Democrats attack, Page 5; Editorial Comment, Page 15

Lufthansa shares offered at discount: Investors are to be offered shares in Lufthansa, the German national airline, at DM182 ($118), a small discount to the last traded price. The German government is cutting its stake in the carrier from 51.4 per cent to about 41 per cent. Page 18

Russia plans new legislation: Russia is planning a radical legislative programme to protect the rights of the individual and introduce more effective competition in the economy. Page 2

USAir passes dividends: USAir, loss-making US airline in which British Airways has a 24.6 per cent stake, said it would pass its quarterly dividend on two classes of its preference stock. The decision would cost BA about $25m if payments were passed for the full year, Page 17

British Gas upbeat on growth: British Gas predicted that a strong performance in its UK businesses would allow it to increase dividends. Chief executive Cedric Brown said international strategy would focus on Latin America, south east Asia and Europe, where there was a growing demand for gas. Page 17; Lex, Page 16

Nato pledges tougher Bosnia line: Nato defence ministers pledged to make better use of air power over Bosnia. Page 18

Redland to seek Frankfurt listing: British building materials group Redland is to seek a listing on the Frankfurt stock exchange after reporting a 40 per cent rise in German profits in the first half. Page 18; Lex, Page 16

Credito Italiano to raise funds: Shares in Credito Italiano, recently privatised Italian bank, fell 5 per cent after it announced plans to raise up to L1,520bn ($975.6m) for acquisitions. Page 20

BAe in talks with submarine maker: British Aerospace made a friendly bid approach to VSEL, UK maker of Trident submarines. Page 18

UK prepares to sell stake in generators: The UK government outlined plans to sell its remaining 40 per cent stakes in electricity generators National Power and PowerGen. The sale is expected to raise about £4bn ($6.3bn) in three tranches. Page 8

IRA 'continues to recruit': The IRA has continued to seek recruits and to shadow police and army patrols in Northern Ireland despite its declared end to violence last month, British intelligence sources said. Page 8

Attwoods in move to thwart hostile bid: UK waste services group Attwoods sought to throw off balance the hostile £364m ($575m) bid from Browning Ferris Industries of the US by claiming the predator had evaded questions over possession of confidential information. Page 18

Typhoon hits western Japan: Typhoon Orchid swept through areas surrounding Osaka in western Japan, disrupting industry and closing the city's international airport.

England woos French shoppers: Retailers in south-east England are campaigning to attract French shoppers to compensate for British shoppers crossing the English Channel to buy cheap alcohol. Page 8

■ STOCK MARKET INDICES		
FT-SE 100:	2982.5	(-46.2)
Yield	4.22	
FT-SE Eurotrack 100	1330.58	(-15.43)
FT-SE-A All-Share	1500.09	(-1.3%)
Nikkei	19,615.12	(+107.52)
New York: lunchtime		
Dow Jones Ind Ave	3853.95	(-24.23)
S&P Composite	462.06	(-2.73)
■ US LUNCHTIME RATES		
Federal Funds:	4 11/16%	
3-mo Treas Bills: Yld	4.696%	
Long Bond	95¾	
Yield	7.864%	
■ LONDON MONEY		
3-mo Interbank	5⅞%	(same)
Liffe long gilt future:	Dec 99¾	(Dec 99 5/32)
■ NORTH SEA OIL (Argus)		
Brent 15-day (Nov)	$16.84	(16.485)
■ Gold		
New York Comex (Dec)	$398.7	(397.9)
London	$395.5	(same)

■ STERLING		
New York lunchtime:		
$	1.58665	
London:		
$	1.581	(1.5784)
DM	2.4443	(2.4412)
FFr	8.3416	(8.3308)
SFr	2.0279	(2.0199)
Y	155.732	(155.82)
£ Index	79.9	(79.8)
■ DOLLAR		
New York lunchtime:		
DM	1.54675	
FFr	5.2725	
SFr	1.283	
Y	98.60	
London:		
DM	1.5461	(1.5467)
FFr	5.2763	(5.278)
SFr	1.2827	(1.2797)
Y	98.595	(98.72)
$ Index	62.9	(same)
Tokyo close Y 98.75		

Austria	Sch32	Greece	Dr350	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$15	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft185	Morocco	MDh15	Singapore	S$4.50
Bulgaria	Lev50.00	Iceland	IKr215	Neth	Fl 4.25	Slovak Rp	SKL50
Cyprus	C£1.10	India	Rs50	Nigeria	Naira70	S. Africa	R12.00
Czech Rp	CZK50	Israel	Shk8.50	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Estonia	EKr 20	Jordan	JD1.50	Philippines	Peso50	Syria	S£50.00
Finland	FM14	Kuwait	Fils 625	Poland	Zl38,000	Tunisia	Din1.500
France	FFr8.50	Lebanon	US$1.50	Portugal (mainland)		Turkey	L30000
Germany	DM3.60	Lux	LFr65		Esc225	UAE	Dh12.00

Ferries may face safety curbs

Reports of six recent 'near-accidents'

By Hugh Carnegy in Stockholm

Sweden's senior maritime safety officer yesterday questioned the safety of roll-on roll-off ferries with opening bow sections and said he was considering restricting their operations following the sinking of the ferry Estonia in the Baltic Sea with the loss of some 900 lives.

In statements likely to reverberate throughout the shipping industry, Mr Bengt-Erik Stenmark, the government's director of maritime safety, said the National Maritime Board had been informed since the Estonia disaster of some six recent "near-accidents" in waters around Sweden, involving the failure of opening bow sections, which had not previously been reported to the authorities.

He said "all the indications" were that water entering the Estonia, jointly operated by Swedish and Estonian shipping companies, through the bow section was the "final cause" of Wednesday's catastrophe – although it may have been the culmination of a chain of events including the shifting of improperly secured cargo.

"What I see now as a trend is that bow sections can be breached in the high sea conditions that are to be found in the Baltic Sea," Mr Stenmark said.

He said he had ordered that all ferries with opening bow sections using Swedish ports should be inspected urgently. He was especially concerned about ships with visor-type bows that swing open vertically, which was the case with the Estonia. He said he would decide by early next week whether to impose restrictions on the operation of up to 30 such ferries in high seas pending a fuller safety inquiry.

He added he believed the International Maritime Organisation, the United Nations body that sets standards for the shipping industry, should study the issue of the safety of opening bow sections on roll-on roll-off ferries.

The IMO confirmed the danger of water penetrating the bow doors of such vessels was one of the most important issues under consideration in its safety committees.

However, it said there was no evidence this was a widespread problem.

The newly reported incidents, which took place over the past few years, came to light through informal contacts with the Maritime Board by crew members of ships and staff members of shipping companies shocked by the Estonia sinking, the worst maritime disaster in European waters since the second world war.

Mr Stenmark said in the worst incident a large ferry of similar size to the Estonia sailing between Sweden and Finland was only saved by the skilful manoeuvring of the ship by its captain after water had flooded into the cargo deck through the bow.

A joint investigation involving officials from Sweden, Finland and Estonia will produce the main report on the Estonia disaster. They began interviewing survivors yesterday, including a crew member and a passenger who both reported seeing water rushing onto the car deck shortly before the ship foundered.

Officials at Estline, the operator of the Estonia, said they did not believe a failure of the bow doors had caused the sinking, but they admitted they had "no concrete explanation" of why the ship sunk so suddenly.

Confusion continued yesterday over how many passengers were on board the Estonia when it sank. The main rescue centre at Turku, Finland, said it now understood more than 1,000 people were aboard, compared with reports of about 960 on Wednesday.

Insurers face potential claims of more than $100m following the disaster.

Editorial Comment, Page 15

Disney loses fight for US civil war theme park

By Jurek Martin in Washington

The Battle of Third Manassas has ended in defeat for the Walt Disney Company with the sudden announcement that it was abandoning plans to build a $650m history theme park on the rolling Virginia countryside over which the US Civil War raged 130 years ago.

The flag of surrender to local environmental and historical opposition was run up by company officials on Wednesday night in Richmond, the state capital. Disney officials told Governor George Allen, who had pushed $163m in tax breaks for the project through his legislature earlier this year, that it had been decided not to proceed.

A statement from Disney's California headquarters said the company was still intent on building its theme park, preferably elsewhere in Virginia, and it announced a new management team to continue the work.

But it conceded that "despite our confidence that we would eventually win the necessary approvals, it has become clear we could not say when the park would be able to open – or even when we could break ground."

The collapse of the plan – controversial for its location, about 35 miles from Washington and near the famous US civil war battle site – is another setback in a year that is coming to resemble Disney's own Waterloo.

Beset by disappointing attendance at its US venues and the continuing financial crisis at the 49 per cent owned Disneyland outside Paris, its management has been deeply split over long term direction, including possible purchase of a major US commercial TV network.

Last month, Mr Jeffrey Katzenberg, who had transformed Disney's moribund animated film division, resigned after Mr Michael Eisner, the chairman, had refused to give him a more powerful management role. Mr Eisner has been incapacitated this year following open heart surgery, while Mr Frank Wells, the highly regarded president, died suddenly in April.

Continued on Page 16

A father and son, suspected carriers of the plague virus, at an infectious diseases hospital in New Delhi. Schools in the city were closed to contain the spread of the disease. Report, Page 6 Picture: Reuter

Investors 'fear Fed is not acting on inflation'

Markets slide on US data and Alcatel results

By Philip Coggan and Gillian Tett

Financial markets in Europe and the US fell sharply yesterday after figures showing strong US economic growth and weak results from a leading European industrial group.

In the US, an upward revision to second-quarter gross domestic product growth, combined with a lower-than-expected figure for weekly jobless claims, pushed the 30 year US Treasury bond yield to a 2½ year high of 7.87 per cent in early US trading.

Analysts said bond investors feared that the Federal Reserve's decision this week to keep interest rates at their current level meant the authorities were not acting fast enough to keep inflation under control.

"The markets are increasingly of the opinion that Mr Greenspan [the Federal Reserve chairman] hasn't got a grip" said Mr Keith Skeoch, chief economist at broker James Capel.

The fall in Treasury bonds depressed US equities, with the Dow Jones Industrial average down 22.55 points at 3,855.63 in early afternoon trading.

European markets were already jittery, fearing that the downward trend in European interest rates had ended, and the weakness in US shares and bonds reinforced other problems in futures and equity markets.

Shares in Alcatel Alsthom, one of France's largest industrial groups, dropped 13.8 per cent to FFr488.7 ($92.47) after a warning of a sharp fall in annual profits. The decline in the shares in the telecoms, transport and engineering group depressed Paris stocks and the CAC-40 index closed 1.5 per cent lower. It also contributed to the 3.9 per cent decline in the shares of Siemens of Germany, a quarter of whose turnover comes from telecommunications equipment.

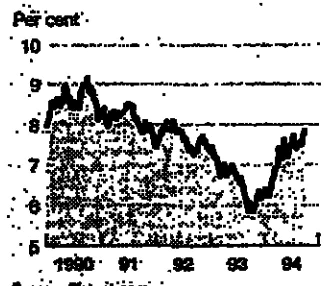
In Germany, the DAX index, which fell only 1.2 per cent during official hours, dropped further after hours to end the day 2.6 per cent lower. The Bundesbank's decision to leave interest rates unchanged had little effect on the market.

In London, shares fell sharply in the afternoon and the FT-SE 100 index closed 46.2 points, or 1.5 per cent lower, at 2,992.5. European bond markets were also weaker, with prices of German and UK government stocks falling slightly.

Analysts stressed that the fall in the markets were triggered by a range of factors, including reports of heavy US selling in Europe. Mr Nick Stevenson, equity strategist at brokers S.G. Warburg, pointed out that some of the movement may also have been generated by technical deadlines among fund managers.

"There may be some asset allocation pressure, particularly from the fund managers, as we come to the end of the quarter," he said. "And then we have also had rumours that there is a big squeeze on hedge funds now."

US long bond yield



Source: Datastream

Digesting the bad news	
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IMF links further support for Ukraine to Kiev reforms

By Peter Norman, Economics Editor, in Madrid

The International Monetary Fund agreed yesterday to provide Ukraine with $360m in financial support and held out the prospect of further funding, as long as the Kiev government introduces economic reforms.

Mr Michel Camdessus, the IMF managing director, said the loan, from the IMF's systemic transformation facility to help former communist countries, had "all the potential to be the long awaited breakthrough" in bringing order to Ukraine's ravaged economy.

But for it to succeed, the Kiev authorities would have to implement a "strong package of measures upfront" to restructure the economy and would need substantial international financial support.

The IMF managing director said the agreement with Ukraine was a "strong first step" in the direction of economic reform. It involved a comprehensive programme including price and exchange rate stabilisation, a "major effort" to reduce the budget deficit, continuation of a tight monetary policy, a pick-up in privatisation, and restructuring of Ukraine's social security system to protect the most vulnerable groups.

The $360m will be handed to Ukraine once the programme has been approved by the IMF board, probably next month. Mr Camdessus said "considerably more assistance" would be available from the IMF in 1995. The fund expects to negotiate a stand-by credit agreement with the Kiev government early next year.

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However, IMF financial support would not be enough, Mr Camdessus said. He called on other countries to pledge support to Ukraine during next week's annual meetings of the IMF and World Bank in Madrid. This was an "opportunity not to be missed", he said.

It is unclear how far other countries will take up Mr Camdessus's suggestion. A senior Ukraine official said that Kiev is hoping for $1.5bn from the industrialised countries as part of $4bn in support over two years that was discussed by the Group of Seven countries at their economic summit in Naples in July.

Canada is due to chair a conference of Group of Seven leading industrial countries to discuss support for Ukraine before next year's summit. But British Treasury officials said that would not be a meeting of donors. All the $4bn envisaged at the Naples summit would come from institutions such as the IMF, World Bank, and the European Bank for Reconstruction and Development, the UK officials said.

Mr Camdessus reacted coolly to the suggestion put forward by Mr Kenneth Clarke, the UK chancellor, for IMF gold sales to finance a plan to ease the debt burden of developing countries with heavy borrowings from the IMF and World Bank.

He said the IMF's members should look at other ways of helping the small group of mainly African states before disposing of the "family jewels".

CONTENTS

Solbes proposals criticised for failing to attack public spending more severely

Spain to curtail budget deficit

By Tom Burns in Madrid

Mr Pedro Solbes, Spain's economy and finance minister, yesterday presented to parliament what the government calls the most restrictive fiscal plan of the past decade. Public spending will grow by 3.4 per cent next year, just below the forecast inflation figure of 3.5 per cent.

The budget expects a rise in government revenue of 7.1 per cent and plans to lower the deficit from an estimated 6.7 per cent this year to 5.9 per cent next year.

Although prime minister Felipe González's Socialist government lacks a majority in parliament, the budget will be passed with backing from the Catalan nationalist party. It is understood that the more restrictive features of the budget, as well a reduction in the social security contributions made by employers, were introduced by the right of centre Catalan party in its negotiations with Mr Solbes.

Mr Solbes said the budget had been drafted "in the context of clear economic recovery" and that GDP would grow by 1.7 per cent this year against an initial forecast of 1.3 per cent. The 1995 budget is based on growth next year of 2.8 per cent.

The chief feature of next year's growth, according to the economy ministry's projections, is that it will be led by strong recovery of private consumption in part due to the first net creation of jobs since 1991. Private sector demand is forecast to contribute 2.5 per to the growth rate against 0.1 per cent this year.

Mr Solbes hopes that between 175,000 and 220,000 jobs will be created next year although Spain's high unemployment – currently just over 24 per cent of the working population – will only come down marginally because of new entrants into the labour market.

Conservative critics of the budget say that the government has failed to use the economic upswing to cut back more severely on the structural component of the public deficit. Mr Solbes claims that he has stemmed former spiralling deficits and that he has begun to make inroads on fixed expenditure: the structural component of this year's 6.7 per cent public deficit represents 4.2 per cent of the total and it will represent 3.6 per cent in next year's planned 5.9 per cent deficit according to Mr Solbes.

There are also doubts about whether the government will be able to meet its 3.5 per cent inflation target next year in the light of a 1 per cent increase in value added tax built into the 1995 budget and increased private sector consumption. Mr Solbes had planned on a 3.5 per cent inflation rise at the end of this year but he said yesterday the year end figure would be "in the region of 4 per cent".

How do you say federalism in Castilian?

By Tom Burns in Madrid

Spain has been taking a searching look at itself this week and its many and varied parts have decided it is time to move a bit further apart.

The push for what could prompt a first amendment to Spain's 1978 constitution follows a three-day debate in the senate. It underlined the complexity of a country that is multi-lingual, multi-cultural and, as some would have it, multi-national.

At an immediate level the cleavages in the Spanish state are expressed linguistically; five of the 16 autonomous community presidents at the debate (there are 17 such areas, but the Basques stayed away) delivered their speeches in languages other than Spanish, or, as Spaniards say, languages other than Castilian.

The spectacle of senior Spanish politicians avoiding their common language to sort out their differences prompted one Madrid political commentator to write that the senate sittings had "gone beyond the limits of what is imaginable, to become hallucinatory".

The constitution set off the decentralisation process, dividing administration of Spain into 17 so-called autonomous communities. Some have acquired powers more quickly than others, although by the end of the process, which is open-ended, it is intended there should be no discrimination between them.

Over the next two years a committee of more than 60 senators and judicial experts will be putting together a constitutional reform package.

"We are looking towards a properly functioning territorial chamber that will borrow elements from the US senate and from the [German] Bundesrat," said Mr Oswaldo Brito, a senator representing the Canary Islands.

The founder and leader of Catalonia's ruling nationalist party and president of the Catalan autonomous community of north-east Spain, Mr Jordi Pujol, told the senate gathering that there would always be qualitative differences between historic nationalities such as his homeland and other communities.

"There can be no doubts that Catalonia is a nation," he told the senate in his native Catalan language.

Ardanza: 'Dialogue of deaf'

Chaves: 'Respect equality'

Pujol: 'Catalonia is a nation'

Speaking in the lisping Castilian that characterises the south of Spain, Mr Manuel Chaves, the socialist president of the Andalucia, the most populous and one of the most economically deprived of the autonomous communities, warned that any change to the existing guidelines would have to "respect the principle of equality that is enshrined in the constitution".

Andalucia has already opposed an arrangement negotiated by the Catalans which allows the community governments to spend 15 per cent of the income tax raised in their jurisdiction as they see fit. It says this would allow wealthy Catalonia to widen regional imbalances.

The position of Mr Felipe González, the prime minister, is an awkward one as his minority Socialist government is dependent on the support of Mr Pujol's Catalan nationalists.

An altogether more prosaic, but no less keenly felt, issue was a squabble over the transfer of water reserves from central Spain to the drought-ridden fruit orchards by the Mediterranean coast.

Many of the present problems originate in Spain's fast switch to democracy after the death of General Franco in 1975. The transition government had to address the long repressed nationalist sentiment in Catalonia and in the Basque country but, wary of the right wing and of Franco's army, it sought to defuse home rule in those areas by extending it to the rest of Spain.

The result has been an unsatisfactory mix between certain communities which can claim genuine political and cultural identities and others, like the Madrid autonomy that sprawls out from the Spanish capital, that lack any such attributes.

For all its shortcomings the autonomous system set up by the constitution has served a purpose; applauding it El Pais, Spain's leading newspaper, noted that its critics should "just think about Yugoslavia".

The Basque Country's president, Mr José Antonio Ardanza, best illustrated the sort of differences that lie ahead. He chose to stay away from the senate debates, saying they constituted a "theatrical experiment" and a "dialogue of the deaf".

Meciar fights for sporting chance in poll

By Vincent Boland in Bratislava

True to his sporting instincts, Mr Vladimir Meciar, Slovakia's former and, he hopes, future prime minister, likes to introduce his party's candidates for this weekend's general election as "a new team for Slovakia".

But the game is far from won and Mr Meciar's fortunes have waxed and waned.

After he was ousted as premier in March amid allegations of corruption in the privatisation process and economic mismanagement, support for him and his Movement for a Democratic Slovakia (HZDS), shot up to nearly 40 per cent in sympathy.

But since campaigning began earlier this month for Slovakia's first general election since it split from the Czech Republic, no opinion poll has given the HZDS more than 30 per cent, and its support now hovers around 25 per cent.

Unless the party wins at least 30 per cent of seats in the new parliament, Mr Meciar is unlikely to win back the job of prime minister.

Many voters have been alienated by Mr Meciar's repeated attacks on President Michal Kovac, whose criticisms of his leadership style led to the former prime minister's ousting, and on Slovakia's Hungarian minority, which he has accused of being too powerful. Slovakia's three ethnic Hungarian parties currently support the present coalition government headed by prime minister Jozef Moravcik.

The outcome depends on the 20 per cent of voters who claim to be undecided. Though he still insists HZDS will reach its target, Mr Meciar seems to be fighting a losing battle to convince those voters to back him.

Floating voters could opt for the Democratic Left party (SDL) of reformed communists, which dominates the Common Choice grouping with 20 per cent of voter support.

As an influential member of the present government, the SDL has transformed its image from old-style communist to progressive social democrat.

The SDL is considered almost certain to be a member of the next government because tensions in the party over this transformation could swing it either into the HZDS camp or towards a government similar to the outgoing coalition.

But if it chooses to support an HZDS-led government, senior members of the party, including Ms Brigita Schmognerova, have threatened to quit. "A coalition requires co-operation, and HZDS does not seem able to co-operate with anybody," Ms Schmognerova says. "They cannot be part of a stable government."

The campaign has been dominated by Mr Meciar's personality and differing approaches to privatisation. In the last days of his previous administration Mr Meciar approved over 40 secret deals to sell state companies to their managers at give-away prices.

Mr Moravcik's government reversed 25 of them after taking office and restarted voucher privatisation, the system popular in the Czech Republic which Mr Moravcik hopes will work similar miracles in Slovakia. Vouchers went on sale before the poll campaign kicked off and so far 700,000 people have bought coupons they can exchange for shares in state companies.

Mr Moravcik is also hoping an improved economic outlook will rebound to his advantage. Growth in the first half of this year is a healthy 4.4 per cent after four years of decline, and both inflation and unemployment have stabilised, though they remain high. Foreign investors are waiting in the wings for signs of stability.

The parties in the outgoing government accept privatisation as the basis of stability. Mr Meciar does not. He has said he will scrap the voucher programme and begin selling state companies to management again if he is prime minister. Some 700,000 Slovaks might not like to hear that.

Paprika banned in poisoning scandal

By Virginia Marsh in Budapest

The Hungarian government yesterday banned the sale of paprika in the country and ordered all retailers and wholesalers to make their paprika stocks available for inspection. The move follows widespread contamination with lead oxide of the tangy spice Hungarians use to flavour and colour their food.

The ban is expected to last for 7-10 days, the government said. More than 40 people have had hospital treatment for poisoning.

The police believe some vendors have been using red pigment containing high quantities of lead oxide to enhance the colour of low quality paprika or paprika substitutes.

The police said yesterday they were holding 18 people in connection with the case.

Ms Erzsebet Schreiber, deputy head of the food product department at the national quality control institute said: "This is the worst case of food contamination we know of in Hungary.

"The paint has been mixed with poor quality paprika or other paprika substitutes and sold as the real thing," she said. Traces of the toxic substance had been found in around 15 per cent of paprika sold in unsealed, unmarked containers which the institute has tested. Hungary produces about 10,000 tonnes a year of paprika, which is made from dried red peppers. Around 55 per cent is exported, accounting for up to 6 per cent of world production. The government stressed that toxic substances had not been found in foods due for export.

Mr Zoltan Bertha, head of the red pepper growers association, blamed the paprika poisoning on "adventurers" who entered the industry in the hope of quick profits after the state monopoly was dismantled in 1991.

Vendors fear the bad publicity from the poisoning would affect sales and exports for years to come. "I sell mainly to tourists," one vendor said, pointing to a basket of fancily packaged paprika costing Ft2,200 (£12.90) per kilo. "This scandal could hurt our national image. Paprika is our symbol. It's like hamburgers to Americans and what would America be if hamburgers were not on sale?"

Russian reform plans spark political turmoil

By John Thornhill in Moscow

The Russian government is planning a radical legislative programme for the forthcoming session of parliament which starts next week.

The emphasis will be on overhauling the state apparatus, developing the legal system to protect the rights of the individual, and introducing more effective competition in the economy.

But how much of this programme can be pushed through parliament is unclear as the political tension rises as the economy comes under renewed strain.

In an extraordinary interview, Mr Vyacheslav Kostikov, the president's press secretary, confirmed that fierce political in-fighting had been taking place behind the scenes and hinted that Mr Yeltsin may be tempted to lurch towards a more authoritarian position.

Outlining the government plans, Mr Alexander Yakovlev, the presidential representative in the federal assembly, said there would be also be a series of proposals for reforming the electoral process at both presidential and duma level.

But he strongly opposed suggestions that there should be an early presidential election before 1996. "In the constitution there are fixed terms and they must be respected," he said.

Mr Yakovlev said legislation would focus on the relations between the centre and the regions, which he described as a traditional source of tension throughout Russian history.

The government also planned fresh initiatives to strengthen the legal system in the country giving citizens greater means of redress against the intrusions of the state and companies.

Mr Yakovlev described Russia as "a democracy without rights" and suggested there would be a review of the criminal code.

Mr Yakovlev also confirmed the government's intention to introduce greater competition into the economy, especially in the banking sector, by means of more effective regulation.

Mr Yeltsin has won much praise in the press for his performance in the US, but the newspapers have also been full of accounts of swirling political intrigues between his advisers back in Moscow.

In an interview with the Interfax news agency, Mr Kostikov said: "Will he (Yeltsin) remain the democratic-minded president we knew in 1991 and 1993 or will opportunist ways make themselves felt in his political conduct? In other words, will he be faced with the dilemma: power at all costs or power for the sake of reforms and democracy?" he said.

Yet Mr Kostikov's position is itself uncertain given that – unusually – he has remained in Moscow while Mr Yeltsin is travelling abroad. Rumours abound that the president is planning a wholesale reshuffle of his closest advisers.

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NEWS: EUROPE

EUROPEAN NEWS DIGEST

Russian bank stake for EBRD

The European Bank of Reconstruction and Development (EBRD) is to make a $35m (£22m) equity investment in Tokobank, providing Russia's fourth largest commercial bank with additional capital to service its corporate clients.

The EBRD, which will gain 14 per cent of Tokobank's common voting stock and gain a seat on its council, claims this will be the first large-scale equity investment by an international financial institution in the Russian banking sector. Mr Victor Yakunin, Tokobank's president, said the EBRD's investment would help it expand its products and markets, especially for long-term credits which are needed for project financing. "This investment lays the groundwork for further co-operation between us and the EBRD," he said. Tokobank was founded as a joint stock company in 1991 and has built up a network of 16 branches. The bank has 400 corporate shareholders and provides banking services to large and medium-sized enterprises, mainly in the energy sector. As of September 1994, Tokobank had total assets of $1bn and common share capital of $250m. *John Thornhill, Moscow*

Sweden names finance minister

Mr Ingvar Carlsson, Sweden's prime minister-elect, yesterday appointed Mr Göran Persson as finance minister in the new Social Democratic government due to take office next week following the party's victory in this month's general election. Mr Persson, 45, shadow finance minister since last year, is expected to introduce a package of tax rises and spending cuts to tackle Sweden's record budget deficit and a state debt soon to exceed 100 per cent of GNP. Mr Persson has a reputation as a tough administrator and the financial markets hope he will be strong enough to resist left-wing opposition to spending cuts. *Mr Carlsson also announced the appointment of Ms* Mona Sahlin, the party secretary, as deputy prime minister. Ms Lena Hjelm-Wallen, a former education and foreign aid minister, was made foreign minister with the task of leading Sweden into the European Union if membership is approved in a referendum in November. Mr Thage Peterson was appointed defence minister. *Hugh Carnegy, Stockholm*

Lauda Air in row over Orly

The French government is heading for a clash with the European Commission over its refusal to allow Lauda Air flights from Vienna and Salzburg to land at Paris's Orly airport. The action disregards one of the key conditions which accompanied the commission's decision in July to allow the French government to grant FFr20bn (£2.4bn) of state aid to Air France, the nation's bankrupt airline. The conditions clearly stated that in return for the injection of state funds, Orly airport must be opened to competing airlines. Mr Nicky Lauda yesterday met senior European commission officials to complain about the French rejection of the private airline's flight plans. Lauda Air already has the landing slots required to fly its routes into the Paris airport. British Airways and British Midland were only recently granted access to Orly airport after a protracted battle with the French authorities. *Emma Tucker, Brussels*

Big rise in French shareholders

Privatisations have driven up the number of private shareholders in France by more than one quarter in the last two years, an official survey showed yesterday. The number of shareholders rose from 4.5m in 1992 to 5.7m in 1994, of which 4.8m held shares in at least one of three companies sold-off in the most recent wave of state privatisation, Banque Nationale de Paris, Rhône Poulenc and Elf. French privatisations have particularly appealed to the younger generation, and a less elite and male-dominated group, said the survey, which was sponsored by COB, the operator and regulator of the French stock market, and the Bank of France. The survey also found that while a quarter of shareholders come from the Paris region, nearly 18 per cent are from rural areas and more than 13 per cent are farmers. *Andrew Jack, Paris*

Euro-MPs back drift-nets ban

The European Parliament voted yesterday to ban fishing with drift-nets in European waters from next January, only hours after EU fisheries ministers failed to agree on a phased-in ban by the end of 1997. Drift-nets are long walls of mesh which are highly effective, but which the European Commission insists cause ecological damage by entrapping species indiscriminately. They were at the centre of this summer's skirmishes in the Bay of Biscay between the northern Spanish and French fleets, which Spanish fishermen warned before Wednesday's ministerial meeting could turn violent. The French fleet uses drift-nets to catch tuna at less cost than the Spaniards, who use the line and live-bait system, while Spain is the main *market for the catch. Spain and the Commission won little* support for their position, and new scientific data on the effect of drift-nets is due to be considered in December. Yesterday's parliament vote, however, gives a political boost to efforts to ban drift-nets, although legally, the member states can disregard Strasbourg's views. *David Gardner, Strasbourg*

Uranium smugglers arrested

Four Slovaks were yesterday caught smuggling 750g (26.5oz) of uranium 235 across their border with Hungary. *Officials from* the Slovak interior ministry declined to say whether the uranium was capable of making a bomb. Since May, the German authorities have made five seizures of radioactive material, much of it believed to originate in the former Soviet Union. The seizures have prompted fears that criminals are taking advantage of lax security at installations in the former Soviet Union to smuggle out dangerous nuclear material. This is the third time Slovak police have seized illegal radioactive material in Slovakia since the fall of communism in 1989. The former Czechoslovakia was widely believed to have sent uranium to the Soviet Union where it was processed and sent back for use in nuclear power reactors. Russia's Interfax news agency reported earlier this month that police had arrested thieves in the city of Glazov trying to dispose of 100kg (220lb) of low-grade uranium – the biggest cache of radioactive material reported in the recent spate of smuggling cases. Moscow officially denies that its security is lax and says there is no proof any of the seized material comes from Russia. *Reuter, Bratislava*

ECONOMIC WATCH

Norway's unemployment falls

Norway's unemployment rate in September fell to 4.8 per cent of the workforce compared with 5.6 per cent the month before, the Norwegian Labour Directorate said yesterday. The decline was in line with market expectations because state employment schemes and job training programmes, which remove the jobless from unemployment statistics, start in September. In Italy, the unemployment rate reached 11 per cent in July, up from 10.3 per cent in July 1993.

■ West German engineering and plant construction orders were 16 per cent higher in real terms in August against August 1993. In the June to August period orders were 18 per cent above the same 1993 period.

■ New business registrations in eastern Germany totalled 13,630 in July, down 7.9 per cent from a year earlier. In the first seven months of the year, 103,747 businesses registered in eastern Germany, a 9.7 per cent decline from the same period last year.

Berlusconi decides to go for broke

After failing to placate the unions, Italy's prime minister has opted for a more austere budget. Business leaders can hardly believe it. Robert Graham reports

Berlusconi: tough line

Confindustria, the Italian industrialists' confederation, held back for a day in judging the Berlusconi government's 1995 budget for fear of appearing over-enthusiastic.

But yesterday all reserve was removed. "I scarcely believe that this government has dared do what no one else has dared to do – structural cuts in the pensions and health systems," commented Mr Stefano Micossi, head of research at Confindustria.

In stark contrast the unions have called a general strike for October 14 to protest against the budget's "unfair and unacceptable" attack on pensions and health benefits. Already *localised stoppages have been* staged in major cities.

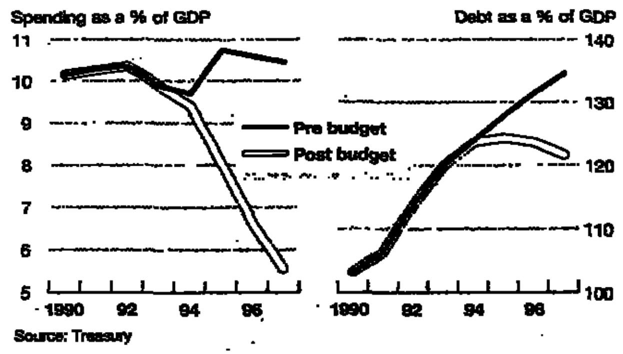
The difference between these two positions is not surprising. On Tuesday in the final stages of preparing the budget the right-wing coaliton changed tactics. Sensing the unions could not be placated, Mr Silvio Berlusconi, the prime minister, *accepted the tough line* advocated by the treasury. As a result the austerity measures acquired more teeth and the structural adjustments affecting Italy's chronic budget deficits became more significant.

The government is committed to finding L29,000bn (£11.8bn) through spending cuts and L21,000 in extra revenues, so reducing the budget deficit by almost 2 percentage points to 8 per cent of GDP. The increase in public spending is being held to the projected inflation rate of 2.5 per cent a year.

The burden of these adjustments will not fall evenly, and future pensioners, especially in the public sector, will lose out. At the same time the core of the fiscal measures pander directly to Mr Berlusconi's electorate – rewarding those who have built property without proper planning permission and those with tax assessment disputes. Last week the government made the terms of the building amnesty even more attractive to encourage people to register their properties (and hence provide registration revenue).

In the case of tax assessments, a backlog of over 1m disputed cases can now be eliminated with the payment of often less than 10 percent of the amount in dispute. This is an effective tax amnesty. These two "amnesties" are due to raise two thirds of extra fiscal receipts. Other revenues will come from reducing the tax privileges of co-operatives; tightening tax evasion and imposing a minimum tax on shelf companies.

Berlusconi's budget



The government could not duck the generous pay-as-you-go state pensions system. If unchecked the treasury funding of the pensions deficit would have risen 11 per cent to L94,000bn in 1995. The measures in the budget will reduce the rise in pensions transfers to 3.5 per cent. This will be achieved by accelerating the pace at which the retirement age is raised from 56 to 60 for women and 61 to 65 for men; by harmonising the rate at which pensions accrue annually at 2 per cent next year and lowering this to 1.75 per cent *thereafter; and by penalising* early retirement. Also all pension requests will be blocked for four months and throughout 1995 indexation payments will be frozen.

The bulk of the other cuts come from the health system with the closure or sale of small hospitals, further reduc*tions in the availability of free* prescriptions, and a hefty cut in procurement contracts. The budget encourages privatisation of healthcare as well as increased use of private pension funds.

The government's axe will be felt in every ministry, not least defence where the L1,000bn pruning risks seriously impairing Italy's pretentions to upgrade its military hardware to play a more active international role. In the civil service new hiring has been frozen and productivity pay bonuses are being introduced. But it is not clear whether enough funds have been earmarked to satisfy pending wage claims from the 3.6m civil servants, who have called a strike on October 13.

Taken together these various measures underline the government's desire to balance austerity with a business friendly budget that builds upon the strong economic *recovery now in evidence.* The financial markets have reacted positively largely because the budget is tougher than anticipated. But the markets are still cautious because the government has done little more than the minimum necessary to tackle the defict. The 1996 budget will have to find similar *sums to hold down spending* needs and the deficit will still be far from complying with Maastrict criteria.

The extra cost of debt service resulting from the half percentage rise in the discount rate in August is not included in the budget. Other doubts also exist: on the yield from the two tax amnesties which are measures that have a notoriously unreliable record; on the ability of an inefficient civil service, now threatened by reform, to carry out the necessary cuts; on the natural tendency of *Italian* governments to understate spending needs; on the optimistic 2.5 per cent inflation target for 1995.

Such doubts mean the Bank of Italy will not be easily persuaded to lower interest rates which are four points higher than in Germany. Unfortunately, the bank's view is also *likely to be coloured by the* five-month stand-off with the government over appointing a new director-general to succeed Mr Lamberto Dini, who became treasury minister.

See Editorial Comment

Stability an imperative after Mexican assassination

Bringing the killers to justice will present an early test of new president's resolve

The scene at the headquarters of the ruling Institutional Revolutionary party (PRI) was sadly familiar. President-elect Ernesto Zedillo, dressed in a black suit, stood next to the coffin of a slain party leader while the crowd that had gathered to mourn chanted "Justice, justice, justice".

Six months ago it was the body of Mr Luis Donaldo Colosio, a presidential candidate, that lay in state. Justice in his assassination has not yet been served, nor is it likely to be. On Wednesday the assassination victim was Mr José Francisco Ruiz Massieu, the PRI secretary-general. Bringing his killers to justice will be one of the first tests of Mr Zedillo's promise of profound reform of Mexico's political and judicial system when he becomes president on December 1.

Although Mr Ruiz was a central player in Mr Zedillo's still ambiguous proposal for political reform, it was clear he was taking orders from the president-elect rather than giving them. The Mexican political system has a great reserve of talent and although Mr Ruiz had a flair that will be difficult to replace, he will be replaced nonetheless.

Investors seem to believe this and are showing a combination of political understanding and blind faith. After falling nearly 3 per cent on news of the killing, the stock market rebounded, as did the Mexican peso, the latter with apparent heavy central bank help. "The market is going to shake this off. The foreigners are showing remarkable restraint," said Mr Timothy Heyman of Baring Securities.

But if confidence is to remain high and economic *growth to take off, the country* cannot afford to hold funeral wakes at PRI headquarters every six months. The morning after the killing, the nation's papers were full of editorials warning that if violence becomes the way of resolving political disputes then the country is in for tough times.

Mr Zedillo's advisers say that he understands something must be done to halt the killings, adding that the trauma it produced shows that Mexicans are not yet prepared to take politically motivated violence as the norm.

"If anything, this makes him more committed to reform," said one party insider at Wednesday evening's memorial ceremony. But he added: "Zedillo is a tough man, but I'm not sure how many more of these things he can take before his nerves start to fray."

Indeed, the temptation to crack down on, rather than open up, the system may become hard to resist. Most observers believe the PRI was re-elected because voters wanted stability more than change. Some within the ruling party are sure to argue that further reform will only expose the country and the president to more political shocks.

If Mr Ruiz's killing was designed to send a message about the dangers of reform – as many are already suggesting – it could be a very effective message.

Others, including government officials, are suggesting a different motive for the assassination: drugs. Mr Ruiz's brother, Mr Mario Ruiz Massieu, is Mexico's assistant attorney-general in charge of the anti-drug fight.

In recent months Mario has presided over several high-profile crackdowns on the country's two most powerful drug cartels. Two other brothers of Francisco and Mario were killed in an unsolved attack in Guerrero state, where Francisco was governor, a number of years ago.

José Francisco Ruiz Massieu (right), a key player in political reforms, in conversation earlier this year with Mexico's president-elect Ernesto Zedillo *Associated Press*

Police arrested a man from Guerrero, named as Hector Resendiz, close to the scene on Wednesday. Government officials said the assailant appeared to be a hit-man as he was carrying an Uzi sub-machinegun.

The drug cartels have shown a shocking capacity to undermine and destabilise the country when politicians get in their way. The three most highly publicised, and unresolved, killings of political figures in the past 18 months – of Cardinal Juan Posadas Ocampo in Guadalajara, Mr Colosio and police chief José Benitez in Tijuana – have been either officially or unofficially attributed to drug traffickers.

Finding the traffickers responsible for the assassination and taking strong action against them would be a convenient way to justify some repression without derailing overall political reform. But it also carries political risks, as well as the threat of more violence. It would mean taking on the drug monster that has penetrated most aspects of Mexican society, including the political system.

There is a widespread belief in Mexican society that taking on the drug cartels would also involve taking on certain parts of the PRI and the government. Opening up that Pandora's box would also mean having to improvise political reform. Mr Zedillo has pledged to change the country, but he also wants to stay in control.

When the Mexican government announced last week that it would follow a restrictive economic policy during the first year of the Zedillo administration, many took it as a sign that initially the new president was going to concentrate on restoring stability through political reform rather than economic growth.

Now stability appears even more imperative. As one foreign observer said: "If you don't have growth and you don't have stability, then you don't have anything."

CIA chief rebuts allegations over 'mole'

Mr James Woolsey, head of the CIA, yesterday rebutted charges that disciplinary action he had taken in the wake of the Aldrich Ames affair was grossly inadequate, **writes Jurek Martin in Washington.**

Ames is a confessed "mole" for the former Soviet Union whose action, a CIA report has confirmed, undermined at least 55, and possibly more, US covert operations in the mid-1980s. Ten US agents – all citizens of the Soviet Union – were executed, the report determined.

In a sharp TV exchange with Senator Dennis DeConcini, the Republican from Arizona and a leading critic of the CIA, Mr Woolsey said letters of reprimand sent to 11 present and former officials did not constitute "business as usual".

Mr DeConcini conceded that there was little Mr Woolsey could do about the seven retired CIA employees found negligent in their supervision of Ames.

But, the senator went on, "some of them are still there, running [espionage] operations. And what do they get? They get a letter. Now I don't want somebody's scalp or something. What I want is change out there."

Mr Woolsey testified later to a secret session of the Senate intelligence committee. But, in several interviews, he was adamant he had gone through each case "individually and fairly, acting somewhat like a judge". He had no apologies for retaining Mr Hugh "Ted" Price as deputy director of operations, even though he was one of the serving officers receiving a letter of reprimand. Mr Woolsey said Mr Price had only been tangentially involved for a short period and was critical to efforts to reform the agency.

But he also said a junior CIA official who had tried unsuccessfully to bring Ames's activities to the attention of superiors was being commended and promoted to serve as his own special assistant.

Even though Ames did his damage before Mr Woolsey took over the CIA with the onset of the Clinton administration, his handling of the matter has raised questions in Washington about his own position. In an interview on Wednesday he said he had no intention of stepping down, merely observing that "some days are longer than others".

US gross domestic product grew by 4.1 per cent in the second quarter, final revised figures released yesterday show, AP-DJ reports from Washington. An earlier revision indicated growth of 3.8 per cent. There was a drop of 11,000 in weekly jobless claims, against an expected rise of 5,000 new claims.

UN asked to rethink sanctions on Haiti

By James Harding in Port-au-Prince and George Graham in Washington

US Secretary of State Warren Christopher yesterday asked the United Nations Security Council to lift all remaining sanctions against Haiti as soon as ousted President Jean-Bertrand Aristide has returned to his country.

Mr Christopher voiced "cautious optimism" over the political developments in Haiti since a US force landed two weeks ago.

Although other Security Council members have shown some reluctance to lift the UN sanctions until Haiti's military leaders step down, US officials said the council might vote on the resolution as early as yesterday afternoon.

In Port-au-Prince, the US military began taking over responsibility for civilian utilities and infrastructure. The lights were expected to come on in a number of districts last night as the US brought two of the city's thermal electricity plants back into operation.

US officials yesterday also predicted that the multinational operation in Haiti would look to rejuvenate water supply, trunk roads and telecommunications.

Until yesterday, the city had only 13MW of electricity after dark, and 26MW during the day. But the US army has provided engineers to restore the Carrefour and Varreuf petrol-fired plant, shut down as a result of the fuel embargo. This should bring the energy supply to over 50MW.

Although army officers were celebrating the achievements yesterday, they insisted that US support was temporary.

Officials would not say how long the US would provide fuel and technical assistance, nor how the programme would be financed. They expressed hope, however, that Haiti would resume responsibiliy for the grid as soon as possible.

Mr Evans Paul, the mayor who was forced into hiding, *was reinstalled in the town* hall yesterday.

Cardoso may have easy win

Angus Foster in Sao Paulo

Campaigning for Brazil's presidential elections closes today, with polls suggesting Mr Fernando Henrique Cardoso, former finance minister, will win Monday's first round and avoid a run off.

According to a Datafolha poll published yesterday, Mr Cardoso has 47 per cent of support, unchanged on a week ago. This compared to 23 per cent for his nearest rival, Mr Luiz Inácio Lula da Silva. Other candidates had a combined vote of 16 per cent. Mr Cardoso will win outright if he polls more votes than his competitors combined. If not, there is a run off in November.

Yesterday's poll also showed Mr Cardoso's support among poorer voters is continuing to grow. This largely stems from an anti-inflation plan he launched when finance minister, which brought monthly *inflation rates of nearly 50 per* cent down to 1.51 per cent for the four weeks to mid-September, according to the government's official index.

US telecoms groups puzzle over the future

Tony Jackson and George Graham on industry overhaul

Telecommunications executives and regulators alike are puzzling over what will happen to their industry now that efforts to pass the first substantial overhaul of US telecommunications law in 60 years have been declared dead for the year.

Legislation died in Congress last week when Senator Fritz Hollings, who as chairman of the Senate commerce committee holds sway over the measure, announced he had given up trying to bring the bill to a vote.

Senator Hollings blamed the "Baby Bells," the regional telephone companies created by the court-ordered break-up of the old AT&T telephone monopoly 10 years ago, for their hostility to the bill, despite a string of concessions *to their demands.*

Industry and stock market reaction to the collapse of the bill, likewise, accused the Bell companies of short-sightedness; anxious to protect their local monopolies, they have obstructed change and denied themselves growth opportunities in long-distance and equipment manufacture. The long-distance telephone companies such as AT&T and MCI, are seen as the winners, as the Baby Bells and other regional companies now will not be allowed into the long-distance market.

The Bells meanwhile hotly deny responsibility, pointing the finger at Sénator Robert Dole, the Republican minority leader, who has done his utmost to block a series of bills that might give the Clinton administration *some claim of* legislative accomplishment.

In fact, a number of Bell chief executives were in Senator Dole's office in an attempt to persuade him to soften his demands at the moment that Senator Hollings announced his withdrawal of the bill.

Even if the Senate had passed Senator Hollings's bill, it would not have been easy to reconcile it with the very different philosophy of the bills already passed by the House of Representatives – which set up a framework but leave much more of the detail to be worked out in regulatory decisions by the Federal Communications Commission.

In many ways, however, the reshaping of the US telecoms industry goes on regardless of events on Capitol Hill. Industry analysts claim the whole industry's investment plans will be put on hold. The Clinton administration's grandiose vision of a national information infrastructure, or superhighway, depends heavily on private sector finance. Without the agreed regulatory framework promised by the bill, the private sector may prove reluctant to risk the money.

But some of this seems exaggerated. "The technology, the plant and the software for the digital superhighway are years away anyway," argues Mr George Dellinger of NatWest Washington Analysis. "This is not a particular setback to the level of investment."

This seems borne out by the recent behaviour of the companies themselves, whose investment plans seem more concerned with acquisitions and *strategic alliances.*

As for the theory that the long-distance companies profit from the bill's collapse, it is worth recalling that the *long-distance companies sup*ported the bill while the Bells opposed it. For the long-distance operators, the bill's attraction lay in requiring the Bell companies to relax their local monopolies.

Since a huge chunk of the long-distance companies' revenues are consumed in access fees to the local networks, the promise of competition and lower fees at the local level evidently outweighed the threat of competition in their own markets.

The bill would have allowed the Bell companies into three important areas: long-distance telephony, equipment manufacture and cable TV. But it would have weakened their local monopolies in return: and with their cash flow in that business – by one industry *estimate – equal to 42 per cent* of turnover, the long-term opportunity was evidently outweighed by the short-term cost.

Instead, the regional companies are looking to the courts, in the hope of getting what they want on easier terms. In one important court case they are seeking jointly to overturn the provisions of the original AT&T break-up, on the grounds that they are anti-competitive and out of date. If successful – and the case could take 18 months to be resolved - this would allow them into long-distance telephony and equipment manufacture. At the same time almost all the Bells have suits under way in local courts seeking to overturn the separate legislation *which excludes telephone com*panies from cable TV.

Meanwhile, the mobile telephone revolution continues apace. Last week's final clearance of the AT&T/McCaw merger is widely seen as reinstating – under competitive conditions – the old nationwide telephone system broken up a decade ago. By using McCaw's local cellular networks, AT&T can, to an extent, simply bypass the local telephone system and provide its customers with a combined local and long-distance service.

All the while the battle over regional telephone monopolies goes on. On Tuesday the New York telephone company Nynex put forward an elaborate proposal to freeze its residential call rates for five years, provided it is allowed to make as much profit as it can in return.

This provoked a storm of criticism from the long-distance and cable companies. The proposal, said AT&T, was "Nynex's Trojan horse strategy for strengthening monopoly control". It was, said the Cable *Television Association* of New York, "so one-sided in favour of Nynex that it would deter any investment in New York state by other companies".

The industry will undoubtedly continue to transform itself, but *all sides agree* it would be quicker and cleaner to try again to produce comprehensive legislation when a new Congress meets next year.

That may not be easy. Some of the deals that have been struck to ease the passage of legislation this year might survive, but compromises on long-distance telephone service and cable television will have to be worked out again from scratch.

Japan's last chance to appease US

By Our Foreign Staff

Eleventh-hour negotiations to prise open Japanese markets to US goods and services resume in Washington today. Mr Ryutaro Hashimoto, Japan's international trade and industry minister, and Mr Yohei Kono, the Japanese foreign minister, return to Washington after breaking off talks earlier in the week because of urgent parliamentary business in Tokyo.

Mr Mickey Kantor, the US trade representative said the ministers were "very aware" of the US resolve in the matter, which will culminate either in trade peace, deadlock or partial deals and partial sanctions.

Firmly re-stating the US position on the framework negotiations, Mr Kantor warned Japan that he will accept nothing less than "real, substantial, concrete, tangible agreements" to resolve the trans-Pacific trade imbalance.

Negotiations, which have stretched fruitlessly over the past 14 months resume hours before the US deadline for new Japanese offers to open markets. Whether or not such a deal emerges by midnight tonight – the US deadline for sanctions if there is no agreement – Mr Kantor said he would make an announcement on Japan trade tomorrow.

"We're dedicated to altering a situation in which our market is open to their goods and their market is closed to our goods. That situation has to be remedied," Mr Kantor said. "We are going to adhere strictly to the dictates of the framework," he added, referring to talks that have yielded no results.

Meanwhile, lower-level officials will keep talking, with both sides aware that a failure to find common ground this week could mark a dangerous downturn in trans-Pacific ties. Four specific sectors are under negotiation: cars, procurement, insurance and glass. US officials have all but ruled out a deal on cars and scoffed at Japanese suggestions that Mr Hashimoto will present a new offer in the sector.

However, sanctions would be some months in coming. If the US sends a list of market barriers to Congress under the Super 301 law, a three-week period of consultations would follow.

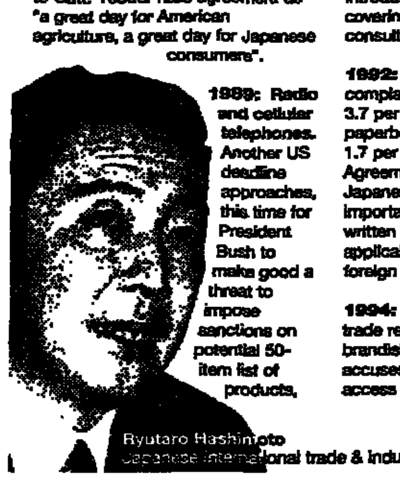
On October 21, investigations would be initiated and it could take another year to 18 months before sanctions are imposed unilaterally.

A decade of deadlines

1986: Semiconductors pact. US threatens heavy penalty duties on Japanese chips unless Japan stops selling at below market prices in US and allows US manufacturers larger share of Japanese market. US imposes deadline for agreement but extends this several times as negotiators struggle to find mechanism for increasing US share without setting precise percentages or targets. Finally, strict midnight deadline imposed; agreement reached minutes before it expires.

1987: Legal services accord. US threatens to charge Japan with unfair trading practices and impose tariffs or quotas. "Japan has been virtually closed to foreign lawyers for over 30 years," says Clayton Yeutter, US trade representative. Japan agrees to expand legal matters US lawyers can deal with.

1988: Beef and citrus fruit agreement. Japan agrees to remove non-tariff barriers on range of products and reduce tariffs on others, thereby avoiding US investigation of Japanese restrictions. US withdraws complaint to Gatt. Yeutter hails agreement as "a great day for American agriculture, a great day for Japanese consumers".



Ryutaro Hashimoto
Japanese international trade & industry minister

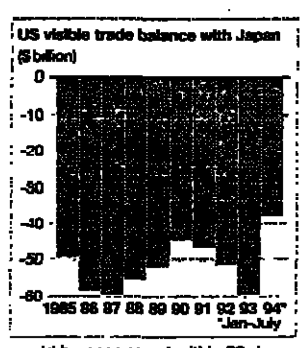
1989: Radio and cellular telephones. Another US deadline approaches, this time for President Bush to make good a threat to impose sanctions on potential 50-item list of products, including colour television receivers, tape recorders and photocopiers. In more cliff-hanger negotiations, Japan agrees to improve access to broadcast spectrum for radio and cellular telephones and to provide comparable access to its cellular telephone market. Japan names a cellular telephone operator to install Motorola system; US claims that, by doing so, Japan assumes responsibility to ensure that operator performs.

1990: Wood products. Five days before deadline on which US will, for a second year, target Japan as unfair trading partner under possible Super 301 sanctions, Japan agrees to remove various barriers to sale of US wood products. US removes Japan from trading "hit list".

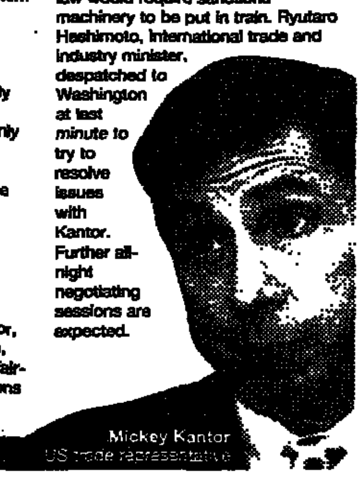
1991: Public works. US threatens to bar Japanese companies from federally funded construction projects and sets another deadline. This extended by 13 hours to allow for overnight negotiating; Japan agrees to double number of government-funded construction projects open to US bidders and introduce more-open bidding system covering both material and consulting services.

1992: Paper products. US complains that Japan imports only 3.7 per cent of paper and paperboard products, of which only 1.7 per cent come from US. Agreement signed calling for Japanese authorities to encourage important paper users to adopt written purchasing guidelines applicable to both domestic and foreign suppliers.

1994: Cellular telephones. US trade representative Mickey Kantor, brandishing a Motorola telephone, accuses Japan of violating 1989 fair-access agreement, saying sanctions would be announced within 30 days. At the last minute, Japanese authorities agree to monitor progress on investment by private operator in Motorola's system, to back low-interest loans from Japan Development Bank for that purpose, and to allocate more radio frequency to Motorola system.



1994: Public procurement of telecommunications, insurance, access to car and car parts markets. US sets midnight, end-September deadline for agreements, saying that without agreement US law would require sanctions machinery to be put in train. Ryutaro Hashimoto, international trade and industry minister, despatched to Washington at last minute to try to resolve issues with Kantor. Further all-night negotiating sessions are expected.



Mickey Kantor
US trade representative

Oil pipeline boost for Balkans

The project could improve Russian exports and presents several economic opportunities for the other countries involved, writes Kerin Hope

An agreement between the Greek and Bulgarian governments approving the construction of a $700m pipeline to ship oil from the Black Sea to the Mediterranean should open up a new outlet for Russian oil exports by the end of the 1990s.

The protocol signed in Thessaloniki earlier this month gives the go-ahead for TransBalkan Pipeline, a Greek-Russian consortium, to build a 350km pipeline to carry crude oil from Burgas in Bulgaria to Alexandroupolis in north-eastern Greece.

The project, proposed early this year by two private Greek enterprises, the Latsis shipping and oil refining group, and the Copelouzos construction group, has been received with enthusiasm both in Athens and Moscow, where a Greek-Russian accord giving political backing for the pipeline was signed earlier this month.

The pipeline, with capacity to carry 35m-40m tonnes of oil yearly, would provide an alternative to shipping Russian oil through the Bosporus. The Turkish government in July imposed restrictions on the passage of supertankers, citing the need to improve safety and environmental controls following the disastrous collision of two Greek-owned tankers in the straits in March.

Moreover, the participation in TransBalkan Pipeline of Gazprom, the Russian state-controlled energy supplier, with an equity stake of up to 50 per cent, will ensure that the Russians maintain their grip on oil export routes from the former Soviet Union. Gazprom is expected to invite several Russian oil companies to take up part of its holding.

Latsis and Copelouzos will be the other main participants in the consortium, together with Prometheus, a joint venture between Gazprom and the Copelouzos group which was set up to carry out energy projects in Greece.

Gazprom is already involved in the construction of a 600km pipeline, due to be completed next year, and bringing natural gas to Greece from Bulgaria. The Bulgarian and Greek state oil companies will each be offered a small equity stake in TransBalkan. For Bulgaria, which at present attracts little international investment, the project also opens up broader long-term opportunities.

Mr Dimitris Copelouzos, the group's chairman, said: "Not only will the Bulgarians benefit from pipeline tariffs, they would also be in a position to extend the pipeline north and west, to the former Yugoslavia and perhaps Hungary, at a later date."

Moreover, there appear to be fewer political risks associated with the project. Greece and Bulgaria have managed to avoid the kind of disputes over minority issues that are poisoning Greek relations with both Albania and Macedonia.

The Greek government welcomes the project for its potential contribution to development in Thrace, one of the poorest regions in the European Union.

The pipeline will also go some way towards reducing the fears of Greek and Cypriot shipowners, who are important carriers of Russian oil, that the new Bosporus regulations will prove costly for their tanker operations.

The project calls for a chain of tankers to ship crude from the Russian port of Novorossysk across the Black Sea for offloading at storage facilities in Burgas.

At the other end, oil from a tank farm at Alexandroupolis, with capacity of some 700,000 tonnes, is to be shipped through an undersea pipe for loading at a mooring station several kilometres offshore.

However, given the political tensions between Greece and Turkey, officials involved with the project are careful to stress that the pipeline project is not intended to replace the Bosporus route, or conflict with plans to ship oil from the former Soviet republics by pipeline through Turkey to the Mediterranean. "It's not a question of wanting to monopolise Russian oil exports," one official said.

"With some 35m tonnes of oil moving through every year, the Bosporus is already close to capacity. When oil exports start from Kazakhstan and Azerbaijan new routes will be needed."

A pre-feasibility study proposes two alternative routes for the Bulgarian sector of the pipeline, running south-west from Burgas through the Rodopi mountains to Thrace.

Construction work is expected to start in late 1995 and would take three years to complete.

As the first important cross-border construction project in the Balkans, the consortium partners sound confident that international financing for the pipeline will not be difficult to arrange.

According to one estimate, up to 35 per cent of the cost could be covered through EU grants, while the project would also qualify for soft loans from the European Investment Bank.

In addition, the London-based Latsis group has ready access to financing through its network of private banks in western Europe with equity capital that totals more than $500m.

Gatt chief pushes states on treaty

By Frances Williams in Geneva

Just a year after hitting the international campaign trail in his efforts to secure a successful conclusion of the Uruguay Round, Mr Peter Sutherland, director-general of the General Agreement on Tariffs and Trade, is globe-trotting once again, this time to lobby for quick ratification of the deal.

Mr Sutherland told members of the Australia-New Zealand Business Council in Auckland yesterday that next January's deadline for establishment of the World Trade Organisation, Gatt's successor, was too important to miss.

He renewed calls for big economic powers to exercise a moral obligation and ratify the new world trade treaty, saying a recent threat to stymie approval in the US Congress could not be afforded.

"Until that is done, the benefits of the [Uruguay] Round remain an uncashed cheque," Mr Sutherland said. "The target date for cashing the cheque is January 1. It is not a date anyone can afford to miss."

The visit to Australasia follows trips earlier this month to Latin America and to Brussels.

Next week Mr Sutherland will be in Madrid for the IMF/World Bank meeting where he is expected to buttonhole ministers to urge completion of ratification procedures this year. He has also been in telephone contact with Washington and some other key trading nations.

A special implementation conference to decide on the date the Uruguay Round accords come into force has been scheduled for December in Geneva.

But, with the timing of ratification in the US and the European Union clouded by uncertainty, most of Gatt's 123 members have taken a wait-and-see approach. Only 26 have ratified so far and the number has not budged since the summer.

Mr Sutherland said he was still optimistic Congress would pass the legislation. "I cannot contemplate the possibility of non-ratification," he said. But he said a delay would be costly.

"The costs of delay are likely to be direct costs – US market analysts have already warned of the negative effect on markets generally – and opportunity costs. All you have to do is think of the opposite of all the benefits," he said.

He was less concerned with the EU ratifying the proposals, describing hold-ups in Brussels as procedural.

A letter from Mr Sutherland to all trade ministers earlier this month has elicited a "very positive response", according to Gatt officials.

The majority have told Gatt they expect to complete ratification by the end of the year.

WORLD TRADE NEWS DIGEST

US clampdown on rose imports

The US has imposed an anti-dumping tariff on Ecuadorian and Colombian roses. The US Commerce Department has determined that US growers had suffered injury by Ecuadorian and Colombian producers and penalised them with 50 per cent and 33 per cent tariffs respectively.

Ecuadorian flower growers argue that the US Commerce Department incorrectly applied its standards. Because no comparable domestic market exists for the type of roses they export, three of the four companies investigated by the US were judged by a third country comparison.

The new tariff comes only a year after the Andean Trade Preference Act (ATPA) eliminated import tariffs on flowers from the Andean region.

The tariff is a blow to efforts to promote alternative crops intended to replace the cultivation of coca. Ecuador exported approximately $30m worth of flowers last year and expected sales of $45m this year, of which approximately 70 per cent are roses. Colombia's total flower exports equalled $381m in 1993. *Raymond Colitt, Quito*

US anti-dumping law attacked

US anti-dumping and countervailing duty laws came under attack at the opening of a two-day hearing by the US International Trade Committee into the broad effects of the legislation. The hearing is part of a two-year ITC investigation ordered by Mrs Carla Hills, the former US trade representative, before she left office last year.

The lead witness, Congressman Jim Kolbe, an Arizona Republican, said US trade policies were failing to recognise "the challenges of global and economic integration and capitalise on economic opportunities".

Mr Peter Watson, chairman of the ITC, welcomed the study which he said would include an economy-wide empirical analysis of the economic impact of unfairly traded imports on selected domestic industries and consumers, as well as the specific industries, which seek relief from imports under the trade laws. The study will also estimate the effects "on both upstream and downstream industries of unfair trade imports as well as the reverse effects associated with the remedy", he said. *Nancy Dunne, Washington*

ABB wins contract in Germany

ABB Asea Brown Boveri, the Zürich-based power engineering group, has won a contract to build a large combined cycle gas turbine power plant for the RWE Energie regional electric utility at Ludwigshafen, Germany.

The Kraftwerk Süd plant, to be located at the main BASF chemical works in Ludwigshafen, will produce 325MW of electricity and 450 tonnes per hour of process steam. It is to come on stream in the autumn of 1997 to replace a smaller coal-fired plant. ABB is also supplying the control system, electrical infrastructure equipment and switchgear *Ian Rodger, Zürich*

Italian power job in Lebanon

Italy's Ansaldo company has won a contract worth $720m to build two 450MW combined cycle power stations in Lebanon. The Italian government will finance the project as part of a soft loan to Lebanon. Five international consortia had submitted bids to build the two plants, one in the northern Baddawi region and the second at Zahrani in south Lebanon. *Reuter, Beirut*

CONTRACTS

■ Sweden's national telephone operator, Telia, has set up a joint venture company in Namibia for the country's first mobile telephone network. The company is 51 per cent owned by Namibia Post and Telecom and 26 per cent owned by Telia. The balance is held by Swedfund International, a Swedish risk-capital company. *AP-DJ, Stockholm*

■ Northern Telecom of Canada won a $100m digital cellular system contract in Taiwan. Northern Telecom will provide a turnkey cellular telephone system, including radios and switches, engineering, installation, commissioning and maintenance support. *Reuter, Toronto*

■ Preussag Anlagenbau, the construction arm of German steel and engineering group Preussag, has received a plastics plant order from Russia's Gazprom worth DM500m. *Reuter, Hanover*

■ Computer systems group, Tadpole Technology, of the UK said it will supply US company Lockheed Sanders with portable workstations for the US Air Force in a deal worth $20m over the next three years. *Reuter, London*

■ Swedish construction company Skanska has won a contract to build apartment buildings in Russia and the total estimated cost of the project is $68m. The building will be financed by US aid authorities and was ordered by US construction company Ralph Parsons of Delaware. *Reuter, Stockholm*

■ Ericsson Telefon of Sweden has won an order worth SKr630m ($80.8m) from the new Japanese telephone operator Digital Tu-Ka Kyushu for a personal digital cellular network to serve the Kyushu region in southern Japan. The network is expected to start operating in 1996. *AFX, Stockholm*

NEWS: INTERNATIONAL

Refugees carry plague across India

New Delhi closes schools and cinemas, while neighbouring countries seal borders

By Stefan Wagstyl in New Delhi

The authorities in New Delhi yesterday closed schools and cinemas as plague claimed more victims in the city and in northern, western and eastern India.

The closure was the most serious precaution taken so far outside the epicentres of the disease in the western city of Surat, where pneumonic plague broke out last month, and in rural eastern Maharashtra, which was hit by bubonic plague last month.

The Delhi authorities' action indicates the gravity with which Indian officials are treating the outbreak, even as they are trying to calm fears in the country and abroad. Mr Madan Lal Khurana, the city's chief minister, said the measures were a precaution and there was no need to panic.

Schools are to close until October 15, and cinemas indefinitely.

The number of suspected cases increased by about 400 yesterday to just under 1,800, mostly in and around Surat and in eastern Maharashtra, according to the government's National Institute of Communicable Diseases. The plague has also been spread to other places by a flood of people who fled Surat last week.

Delhi yesterday reported 61 suspected cases, an increase of 30, and Bombay, the commercial capital, 69, up from 51. Officials are puzzled by the relatively low figure for Bombay, which lies close to Surat and where many of those fleeing Surat sought refuge.

A handful of cases has also been reported in the tourist state of Rajasthan. In Calcutta, about 50 suspected plague victims were found to have been suffering from other diseases. The death toll remained unchanged at a revised figure of 46.

Except in Surat, where the exodus of 300,000-plus people has left many streets, shops and factories deserted, life in the big cities continues as normal. Apart from sweeping antibiotics off chemist shop shelves, people have shown no signs of panic. Municipal councils have increased efforts to clean away rubbish.

Meanwhile, foreign countries – notably India's neighbours – increased their precautions. Pakistan sealed all air, land and rail routes to India. The Gulf states, which had earlier banned flights, yesterday closed their ports to ships from India. Bangladesh is cancelling flights from India from today.

European states and the US are screening travellers arriving from India. In the strictest travel warning issued by a western country, France has advised its nationals not to go to India unless necessary. Mitsui, the Japanese trading company, is repatriating the families of its India-based executives.

Indian health officials insisted the plague was under control and accused some foreign countries, especially the Gulf states, of over-reacting. The government in Delhi called a meeting tomorrow of health officials from all state administrations to work out a comprehensive anti-plague strategy.

Dr N K Shah, the World Health Organisation's representative in India, said India should be free of the epidemic in two or three weeks.

Travel industry executives expressed concern that the plague was starting to affect trade, particularly package tours. However, hotels said very few business travellers were cancelling trips. India attracted 1.86m foreign tourists in the year ending March 1994, and expected 2.2m this year.

Workers stoke a garbage incinerator in Calcutta in an attempt to curb the spread of plague. Reuter

Industry output set on a rising trend in Japan

By William Dawkins in Tokyo

Japan's industrial output bounced back a higher-than-expected 3.6 per cent from July to August, confirming that production is settling into a gently rising trend.

The turn-round, from a 1.7 per cent decline in July, means output is set to rise by a 1.9 per cent from the second to the third quarters of this year, forecast the Ministry of International Trade and Industry.

That would be the third consecutive quarter-on-quarter rise of this important measure of economic activity, representing nearly a third of Japan's GNP. Miti expects output, often volatile, to fall in the next two months, as manufacturers hold back after an unusually strong August.

But the trend of average production in the first nine months of this year, is 0.5 per cent above the same period of 1993, estimated Mr Bick Beason, senior economist at James Capel Pacific. Stocks of unsold goods were flat last month, by comparison with July, but fell by 7.1 per cent over the year, prompting Miti to predict that inventory adjustments would soon be completed.

Evidence that some industrial sectors are gearing up for a recovery in demand came yesterday with survey showing that producers of machinery will increase their capital spending by 3.2 per cent in the year to next March, the first rise for three years.

This is led by semiconductor and liquid crystal display producers, which plan a 16.6 per cent rise in investment this year, responding to the growth in demand for personal computers, said the Japan Machinery Federation. Carmakers expect the second biggest sector rise in machinery spending, 2.4 per cent this year, according to a federation survey of its members.

Jurek Martin tries to pin down Japan's foreign minister's agenda

Kono is all tact after UN talk

There are two ways to read the speech that Mr Yohei Kono, Japan's foreign minister, delivered to the United Nations general assembly on the subject of his country's membership of an enlarged Security Council.

The first is to conclude that Japan is putting the world on notice that it expects its contributions to the UN finally to be recognised with a Security Council seat by the end of next year at the latest.

The second is that Japan's time frame is nothing like as tight.

Interviewed by a small group of correspondents from western newspapers in the offices of the Japanese mission to the UN, Mr Kono made no threats, but exuded a quiet insistence that the time had come. "I think it is inevitable the time is needed for any agreement in an organisation with so large a membership," he said.

"My speech reflected Japanese mentality," he said about the address on Tuesday. "It is more convenient, better, to think in round figures, like 50 or 100." Next year is the 50th anniversary of the UN, thus it was "a logical objective". However, he added, there was no setting of a firm deadline.

He was not specific about how big an expanded Security Council might be, settling, vaguely, at "around 20 countries", and declined to identify who they might be.

He also ducked the obvious question as to whether the power of veto should be extended beyond that possessed by the current permanent five – the US, Russia, Britain, France and China. "That will require a lot of discussion," he said.

But he then made the argument that possession of nuclear weapons should not be the only criterion. "It is important to have countries with a non-nuclear frame of mind" on the Council for the simple reason that international security could no longer be defined exclusively in military terms.

"Today, the UN is expected to play all sorts of roles," he argued, listing the environment, development, refugees, disaster relief and nuclear non-proliferation. Permanent members "should have experience and other capabilities" on which the existing five members do not have a monopoly.

Mr Kono agreed that the change in government in Tokyo had altered Japan's approach to membership, with the clear divisions that marked the coalition headed by Mr Morohiro Hosokawa now replaced by a consistent view.

There might still be reservations in the Social Democratic and Buddhist parties, he said, "but within the cabinet there is agreement behind this new push".

The foreign minister also diplomatically declined an invitation to say whether Japan would support a second term for Mr Boutros Boutros Ghali, the UN secretary-general. It was "too early" to assess his performance or contemplate the succession.

But, clearly aware that the secretary-general will be an important player in UN reform, Mr Kono noted how hard Mr Boutros Ghali had worked to improve relations between the UN and Japan, and with Asia in general.

Mr Kono was careful not to give the impression that Japan was consciously leading an Asian movement for greater influence in the UN. Asian growth had been "breathtaking", with many nations now "more confident" and ready to speak out on a wide variety of issues. But some were "still mired in poverty".

But with Japan contributing 12 per cent of the UN budget, and with the world's largest development aid budget, Mr Kono thinks his country's case for membership now stands on its own merit.

Kono: wants UN seat

Deadlock over OECD top job

By David Buchan in Paris

The Paris-based International Energy Agency yesterday named a new director, but only on an acting basis partly because of the continued deadlock over a new head for the Organisation for Economic Co-operation and Development.

Mr John Ferriter is to take over as interim executive director of the IEA from Ms Helga Steeg, retiring after 10 years at the agency which seeks to co-ordinate energy policy among some 23 industrialised, oil-consuming countries. These countries all belong to the OECD, and some, notably France and the US, appear to be using the final choice of IEA director as a weapon in their battle for the secretary-generalship of the older and more prestigious OECD.

Ambassadors of the OECD countries, which group IEA members plus Mexico and Iceland, were yesterday holding another crisis meeting, apparently to try to arrange a temporary manager of the institution after the term of Mr Jean-Claude Paye, the current French secretary general ends tomorrow.

In four hours of talks on Wednesday, they failed to reach a decision between the rival candidacies of Mr Paye, supported by France and a number of European countries, of Mr Donald Johnston, a former Canadian minister strongly backed by the US and some non-European members of OECD, and of Lord Lawson, former UK chancellor, whose backing lies mainly with his own country.

Mr Paye's supporters claim majority support for their man who has held the OECD post for the past 10 years - though not apparently the Netherlands - behind him the Frenchman deservers to continue in the post he had held for 10 years.

But the US and Canada are effectively vetoing Mr Paye on the grounds the OECD should have a non-European head for the first time in its history. Such is the deadlock it is possible both Mr Paye and Mr Johnston may have to withdraw.

CONTRACTS & TENDERS

Timebomb under Syria peace plan

By David Horovitz in Jerusalem

Five members of Israeli Prime Minister Yitzhak Rabin's Labour party yesterday put a timebomb under his plans for a peace accord with Syria, by tabling a bill that, if passed, would require him to win an almost impossible parliamentary majority for withdrawal from the Golan Heights.

Foreign Minister Shimon Peres said the five were making "a fatal mistake" that could cause the collapse of the peace process.

Mr Rabin had warned on Wednesday that, if the bill were passed, "I would have no choice but to tell the Americans it is impossible to pursue negotiations with Syria."

Australian current account deficit soars to A$2.14bn

By Nikki Tait in Sydney

Australia's current account deficit, seasonally adjusted, surged to A$2.14bn (£1bn) in August, the largest figure since the beginning of 1990 and way in excess of market forecasts.

The revised July deficit figure stood at A$1.81bn, and most analysts had been predicting a similar figure for the following month. Although many of Australia's economic indicators have looked healthy in recent months, there has been persistent concern that the country could experience a "blowout" on the balance of payments front.

Merchandise exports rose by 2 per cent, or A$123m, although non-rural exports remained below the level recorded in 10 of 12 months of the 1993/4 fiscal year. This rise, however, was more than outweighed by a 7 per cent increase, amounting to A$412m, in merchandise imports.

Worse is yet to come, warns opposition

Government ministers immediately played down the significance of yesterday's figures. Mr Kim Beazley, finance minister, said "monthly volatility in the data should be treated with caution", particularly given the large increase in imports of a few very costly unusual items that occured in August.

However, Mr Paul Keating, prime minister, admitted the deficit was "higher than we would like", although he also warned about reading too much into one month's figures. Both Mr Keating and Mr Beazley denied that the August balance of payments figures would put pressure on the federal budget, or immediately influence monetary policy.

However, the Australian dollar came under selling pressure, and closed at $0.73825, compared with the previous close of $0.73885. The long bond yield hit a three-year peak, but steadied later.

Meanwhile, Mr Alexander Downer, leader of the coalition opposition, warned that the effects of the severe drought, which has hit key east coast agricultural areas and is expected to hinder rural exports, had yet to be felt, and could compound a surge in capital investment-related imports.

Study aims to create agenda for regenerating the private sector

Host of constraints hinder Egypt

A host of embedded legal, regulatory, tax, financial, bureaucratic and judicial constraints are impeding the growth of Egypt's private sector, despite "remarkable results" in the country's macro-economic reform programmes, an exhaustive World Bank study* designed to create a sweeping agenda for private-sector regeneration says.

The report, the most detailed to be prepared on Egypt's private sector, is an attempt to explain why private investment has failed to respond to almost three years of largely successful International Monetary Fund and World Bank-guided stabilisation policies.

It underlines the urgency of the task by estimating that the private sector must create 5m new jobs by the year 2000 even to halve the present 20 per cent unemployment rate, given present population growth of more than 2 per cent.

Even moderate GDP growth of about 3.5 per cent a year would require a real doubling in levels of private investment between now and 2000, the report says.

The bulk of prospective new jobs would most likely come from small private companies employing fewer than nine workers, which comprise 99 per cent of the country's non-agricultural private-sector enterprises.

But these lack access to credit, physical space and markets, are largely ignored by economic policy-makers and often prefer to remain small to avoid contact with cumbersome tax, legal and other bureaucratic restraints.

The "rigid regulatory environment" of the socialist 1960s under President Gamal Nasser "pushed a large sector of private enterprise into informality and engendered reluctance to graduate out of it," while government incentives have been heavily biased towards big domestic and international investors.

Mark Nicholson on a World Bank report urging 5m jobs by 2000

"The result was a private sector with distinct polarity and weak linkages."

The report identifies a raft of constraints on the private sector as a whole including:

- Lack of clarity and open information on progress in liberalising the economy, breeding uncertainty among prospective investors;
- Complex and restrictive labour laws, along with a lack of adequate anti-trust, consumer protection and trade legislation;
- Complex and prohibitive regulations on corporate approval and licensing;
- Generally inefficient and poor-calibre public institutions.
- Time-consuming and expensive commercial judicial practices dating from "a planned socialist economy where private commercial disputes were not the norm";
- Inadequate sources of credit for small and medium-sized businesses and a scarcity of adequately educated workers, particularly of management calibre; cumbersome and time-consuming tax administration.

These constraints are "closely inter-related and crucial *in toto*," adding that piecemeal efforts to relax them might still not bring about a flourishing private sector. "The real overall constraint to Egypt's private sector is the lack of an appropriate business environment."

To all this, the report adds the need for the government to expand and accelerate its privatisation programme, noting that "in the two years since the privatisation programme started, no actual transfer of controlling ownership has taken place," while more aggressively seeking foreign investment and stimulating private manufacturing exports.

On the latter, it states that non-oil merchandise exports have been declining continuously for a decade and are at just a third of their level in 1983 at current dollar values.

Such exports would have to more than double between now and the year 2000 to keep the balance-of-payments deficit to below 5 per cent of GDP.

Given its wide-ranging findings, the report states perhaps with understatement that "more than three decades of central planning call for a good degree of realism in the setting of Egypt's market-driven development targets", calling private-sector development a formidable task.

The authors hope the report will concentrate government and Egyptian business minds on the topic, which they say is of paramount importance in securing real gains from the reform programme.

The document is to be the centrepiece of a two-day conference in Cairo next week, gathering the bank, the government and leading Egyptian businessmen in an attempt to create an "agenda for action".

**Private Sector Development in Egypt: The Status and The Challenge; The World Bank; Washington DC.*

Oxfam urges big change at World Bank

By Stephen Fidler, Latin America Editor

Big changes in the approach of the International Monetary Fund and World Bank towards Latin America were urged by the British-based aid organisation *Oxfam* in Madrid yesterday.

After four successive years of economic growth, Latin America has come to be regarded as a success story for the market-oriented policies urged by Washington-based organisations. But, in yesterday's report, Oxfam said Latin America's free-market revolution has only widened already extreme income inequalities and worsened poverty.

Oxfam welcomes the World Bank's recent commitment to poverty reduction "but remains concerned that the strategy adopted is essentially a repackaging of the IMF and World Bank's policies, with social investment and safety nets added on".

According to the charity, the new policies' main flaws are that they fail to introduce policies for wealth distribution, and do nothing to protect what it calls basic rights, a lack of which has resulted in low-wage precarious jobs, unequal land distribution, restricted access to capital, and inadequate health and education.

It says IMF stabilisation policies and World Bank insistence on market deregulation, import liberalisation and export growth have undermined any anti-poverty strategy. Growth was also based on the dismantling of workers' rights and the erosion of wages, which would further worsen economic insecurity.

Its central recommendation is for the two institutions to replace their current single policy blueprint with a country-by-country reform strategy based on dialogue with local civil organisations, governments and relevant UN agencies.

It favours selective trade protection and "carefully targeted" subsidies for key industries, as well as low real interest rates. It also calls for social clauses in international trade and investment agreements "to reverse the current trend towards low-wage export strategies".

Land reform should be a central element of the World Bank's poverty reduction strategy.

Further, it says foreign debt is still draining many Latin American countries of resources. The Brady plan, though welcome, had been biased towards big debtors, and had failed to restore their long-term financial stability. Meanwhile debt to multilateral agencies such as the World Bank has become an increasing part of the problem, rising from 5 per cent of the regional debt stock in 1980 to 28 per cent in 1992.

It urges quick implementation of the British government's proposal to use IMF gold stocks for debt relief for very poor countries, and says debt relief should be separated from IMF reform packages. The World Bank, it argues, should use its $17bn (£11.3bn) in reserves for selective debt relief; efforts to reduce countries' commercial debts should be renewed.

Structural Adjustment and Inequality in Latin America: How IMF and World Bank policies have failed the poor. Published by Oxfam UK and Ireland Policy Department.)

Worlds apart on how to change world

Peter Norman on the Bretton Woods institutions and their persistent charity and interest group critics

They are concerned with the same issues, have offices in the same building, but they are worlds apart.

The World Bank and to a lesser extent the International Monetary Fund are under intense and persistent attack from a clutch of charities and interest groups at this year's annual meeting of the two bodies in Madrid.

They espouse the same aims

From a small suite of offices in the main meeting hall, household names such as *Oxfam, Greenpeace and Christian Aid* are campaigning for the Bank to change its policies. Smaller little-known organisations such as VLK, the Slovak Forest Protection Group, are also represented, and seeking to stop specific programmes.

The "50 years is enough campaign", a Washington-based lobby group, has mounted a slick, well oiled crusade to cut the World Bank and the International Monetary Fund down in size.

It wants the International Development Association, the World Bank's soft loan agency *for helping the poorest developing nations*, to be removed from the Bank's control. It also is campaigning for a denial of future capital requests to curb the Bank's ordinary lending operations and the IMF's loans to the poorest countries through the Fund's Enhanced Structural Adjustment Facility (ESAF).

Read the World Bank's annual report, with its account of lending operations to promote development, and listen to the criticism from the 30 to 40 non-governmental organisations drawn to this year's annual meeting, and *it is difficult* to believe that they have the same aims of improving the lot of the poor of the planet.

Mr Lewis Preston, the World Bank president, yesterday declared that the two Bretton Woods institutions had "played a major role in co-ordinating and financing" the development effort over the 50 years in which they have existed.

Oxfam, by contrast, charged that the current IMF and World Bank policies were "actually jeopardising prospects for sustainable recovery and poverty reduction". Christian Aid has said that the structural adjustment programmes of the IMF and World Bank "are damaging the poorest people in debt burdened developing countries". It called for the phasing out of the IMF's enhanced structural adjustment facility.

Greenpeace weighed in with a report saying that the World Bank was failing to implement programmes to phase out ozone depleting substances in developing countries and so hindering the restoration of the ozone layer.

Yet some NGOs also co-operate with the Fund and the Bank. The Bank was involved in 114 projects with NGOs in its most recent financial year to the end of June. According to Mr Preston, NGOs have some involvement in 50 per cent of the Bank's lending activities in Africa.

Most of the NGO involvement is in the design, implementation and monitoring of programmes. But they also helped finance 11 projects last year.

Watched by police, protesters shout at delegates arriving for the IMF/World Bank talks Reuter

NGO influence is set to grow

This involvement helps explain why the critics of the Bretton Woods institutions divide into a radical wing, such as the "50 years is enough campaign", which wants to curtail the activities of the two organisations and more moderate groups which hope to change their practices.

The influence of the NGOs has been increasingly apparent over the past decade, with the Bank paying more regard to the environment and putting greater emphasis on combatting poverty.

On the evidence of this week's meeting, their influence looks set to grow as the IMF and World Bank embark on their second half century.

Ukraine agrees to bold economic reform

By Peter Norman

Yesterday's preliminary agreement for the International Monetary Fund to provide Ukraine with $360m of financing from its systemic transformation facility is contingent on the Kiev government implementing a potentially far reaching economic reform programme.

Mr Michel Camdessus, the IMF managing director said, it was a "strong first step" in the direction of macroeconomic stabilisation.

Considerably more financial assistance will be available next year, with the IMF hoping to negotiate a stand-by credit early in 1995. But while Mr Camdessus and Mr Oleh Havrylyshyn, Ukraine's alternate executive director at the IMF, expressed the hope that western governments would provide bi-lateral support for Ukraine, British officials indicated that there are no plans at present for such a move.

Mr Havrylyshyn said Ukraine hopes to obtain the $360m before the end of Octobee after approval by the IMF board. It hopes to have the $4bn of support envisaged at the Naples summit by the G7 leading industrial countries by the end of 1995.

Although there is likely to be some increase in inflation over the rest of this year as a result of financing arrangements for the farm sector, Ukraine has promised to have its monthly inflation in single digits for the rest of this year and "low single digits" for the whole of 1995, Mr Havrylyshyn said.

He said Ukraine also promised to keep its budget deficit down to 10.5 per cent of gross domestic product in the third and fourth quarters. Without action to cut spending, the deficit would rise to 20 per cent from around 10 per cent in the first half of the year because of the commitments to finance agriculture. The aim is to bring the deficit substantially below 10 per cent next year.

The government will make some cuts in social spending that will hit the middle classes. It also plans subsidy cuts.

It plans to start privatisating state run companies, starting on a small scale early in 1995.

An important part of the plan will be the liberalisation of foreign exchange arrangements, creating a genuine foreign exchange market around the end of this year. The Kiev government hopes this will stabilise the Ukraine coupon currency, which is currently worth around 75,000 to the dollar.

He said Kiev expects the IMF should provide about $1.5bn through its STF and stand-by arrangements. The World Bank is expected to provide $400m while the European Bank for Reconstruction and Development (EBRD) is also expected to provide funds. That would leave about $1.5bn to be provided by other lenders, such as western governments, Mr Havrylyshyn said.

However, senior UK Treasury officials disputed this breakdown. They said the $4bn discussed at Naples would be supplied by the international financial institutions.

If so illustrative G7 figures suggested Ukraine could hope to draw around $1.2bn from the STF, $1.4bn through an IMF stand-by, about $1.2bn from the Bank and $300m from EBRD.

Economic blueprint, see Feature Pages

IMF chief cool to Clarke's aid plan

By Peter Norman in Madrid

The plan of Mr Kenneth Clarke, UK Chancellor of the Exchequer, to sell some of the International Monetary Fund's gold to help ease some poor developing nations' debt burden had a cool reception from Mr Michel Camdessus, IMF managing director, yesterday.

He did not reject the idea but said all other instruments should be considered before disposing of the Fund's "family jewels". The IMF's 103.4m fine ounces of gold, worth $40bn, was being put to good use by the Fund, he declared.

It was used to guarantee the Enhanced Structural Adjustment Facility (ESAF) which had provided support to 36 poor developing countries on concessional terms. The IMF had also pledged 3m oz in support of a programme to help countries in arrears with the IMF regain the ability to borrow from the fund.

Power sell-off may raise £4bn

By Michael Smith

The government yesterday laid the ground for what could be its last multi-billion pound disposal when it outlined plans to sell in February its remaining 40 per cent stakes in electricity generators National Power and PowerGen.

The sale is expected to raise about £4bn in three tranches, between £1.2bn and £1.6bn of it in the current financial year. At least two-fifths of the shares will be offered to retail (private) investors at discount prices.

Rather than set up a share information office, the government will give the "share shops" of banks, building societies, stockbrokers and other financial intermediaries an exclusive role in collecting registrations for the public offer.

Ministers argue that this will make investors more familiar with share trading than if they dealt through an information office which would be disbanded on the sale's completion.

Proceeds from the sale will dwarf those from any other privatisations before the next general election, including potentially a sale of 51 per cent of the Post Office.

Of industries remaining in the public sector, only Railtrack could raise anything approaching £4bn but there are doubts both about its value and the potential to sell it.

At yesterday's share prices, National Power had a market value of £5.8bn and PowerGen one of £4bn, valuing the government's respective holdings at £2.3bn and £1.6bn.

Briefing more than 150 share shops interested in participating, the government said it expected to begin marketing the sale in January in preparation for pricing the shares and offering them the following month. Payments will be in three instalments, each of them in a different tax year.

The first is likely to be 30 to 40 per cent of the total.

The prices will be determined following bids from institutional investors in two separate open-priced international tenders. The international offer will include a retail tender to enable individuals to bid for shares in either or both companies on similar terms to institutions.

Small investors in the UK will only be able to buy a package of shares in both companies, with a pre-determined ratio, possibly three National Power to two PowerGen.

Barclays de Zoete Wedd and Kleinwort Benson, advising the government, said that if retail demand was strong, the 40 per cent allocation of shares to the public could increase.

Discounts to the public will be reflected in a lower first instalment. Existing shareholders will need to register with share shops to be eligible for incentives and preferences in allocation over other applicants.

Sir George Young, financial secretary to the Treasury, said the provision of user-friendly retail share dealing and investment services was a key element in making share ownership a reality for the small investor, whose number had risen from 3m in 1979 to about 10m.

MPs to probe capacity in steel industry

By David Owen and Andrew Baxter

An influential committee of MPs is to conduct an investigation into the British steel industry in a move timed to coincide with the announcement of a package of capacity cuts by European Union steel producers.

The cross-party trade and industry committee plans to focus on the consequences of the EU initiative for domestic steelmakers. It aims to complete its report by December.

Mr Richard Caborn, committee chairman, said there was "great concern across the whole of the British steel industry" about the EU package. "Yet again we potentially have to take cuts in our steel industry when we have already restructured and made Britain the most efficient steel producer in the world."

He called for "far better policing of capacity cuts and financial restructurings than is in place at the moment".

Non-subsidised steelmakers have been given until November to finalise a package of cuts, which need to be agreed before the European Commission will approve an Ecu240m (£189m) aid package. British Steel is not offering any cuts.

The extended deadline for the cuts, agreed earlier this year between industry chiefs and Mr Martin Bangemann, industry commissioner, averted a collapse in relations between the Commission and unsubsidised EU steel producers.

These companies have been reluctant to offer the full amount of capacity cuts required by the Commission because they do not believe the Commission has taken a tough enough line on curbing subsidies to some producers, mainly in Germany, Italy and Spain.

The European Court recently confirmed it is to investigate a complaint from British Steel about subsidies received by Ilva of Italy and CSI of Spain.

The two companies received the lion's share of Ecu7bn of aid approved by European Union industry ministers in December and authorised by the Commission in April.

Under the chairmanship of Mr Caborn, opposition Labour MP for Sheffield Central, the trade and industry committee has developed a reputation for delivering timely and hard-hitting reports on controversial subjects including the coal industry, the Post Office and optical-fibre networks.

Kent woos French shoppers

By Neil Buckley

Retailers in Kent, south-east England, are launching a campaign to attract French shoppers to the county. They hope to compensate for the thousands of British shoppers crossing the English Channel in search of cheap alcohol.

The Kent Chamber of Commerce, together with retailers including Boots, BHS, Debenhams, Mothercare, Tesco and Texas, ferry company Sealink, and French coach operators, is organising shopping day trips for the French, called "Passeport pour Canterbury".

Shoppers will be picked up from their home town, taken to Calais and across the Channel to Canterbury and Whitfield. Participating stores are offering a discount to holders of the "passeport". The trip will cost FFr99 ($18.75).

The campaign will be backed by three weeks of TV advertising, which began yesterday, with capacity to take 35,000 shoppers in the first month. If the scheme is successful it will be repeated.

Mr Martin Graham, chief executive of Kent Chamber of Commerce, said that while alcoholic drinks and cigarettes were cheaper in France, food, clothes and DIY goods were cheaper in the UK.

IRA's shadow patrols erode ceasefire hope

By Philip Stephens and David Owen

The provisional IRA has continued to seek recruits and to shadow police and army patrols in Northern Ireland despite its declared end to violence last month.

The evidence from British intelligence that the organisation has sustained a capacity to resume military operations has reinforced Mr John Major's cautious ceasefire response.

It coincides with growing anger in Belfast at a spate of so-called "punishment shootings" by the IRA in nationalist areas since the ceasefire declaration. The IRA has also continued to operate the criminal "racketeering" from which it derives much of its finance.

Alongside comments from Mr Gerry Adams and Mr Martin McGuinness, leading figures in Sinn Fein, the intelligence has damped hopes of an imminent breakthrough to allow direct talks between London's government and Sinn Féin.

Mr Adams, at present on a tour of the US, warned this week of a possible resurgence of violence if progress towards a political settlement were to reach deadlock. Mr McGuinness said he would never use the word "permanent" to describe the ceasefire.

The two men insist they have no direct links with the IRA, but ministers insist that both are on the organisation's ruling Army Council.

Sir Patrick Mayhew, the Northern Ireland secretary, reported to the cabinet yesterday on the latest developments in the province, but a substantive review of Sinn Féin's position will not take place until Mr Adams has completed his US tour. Whitehall officials will then draw up a comprehensive dossier of all his recent remarks to be put alongside the intelligence reports from Northern Ireland.

In the meantime there is little prospect of any further gesture by the UK government - such as the lifting of the exclusion order which bars Mr Adams from mainland Britain - in the direction of Sinn Féin.

Whitehall officials stress that they do not believe the latest developments necessarily mark a retreat by the IRA from last month's announcement. Military and police chiefs in the province are for the moment relatively relaxed about the organisation's shadow operations. But recent events vindicate Mr Major's caution.

Yesterday the socialist group in the European parliament nominated Mr John Hume, leader of the mainly Catholic Social Democratic and Labour party, for the Nobel Peace Prize. Mr Seamus Mallon, SDLP deputy leader, predictably welcomed the decision but leading Ulster Unionists and Dr John Alderdice, leader of the non-sectarian Alliance party, suggested it was premature.

Dr Alderdice spoke after a 40-minute meeting at Downing Street with Mr Major in which he urged the prime minister to open direct contacts with the IRA if Sinn Féin leaders persisted in saying they could not speak for the paramilitaries. The purpose would be to discuss the handover of IRA weapons.

Downing Street said the prime minister had been "very interested" in ideas put forward by Dr Alderdice for co-ordinating the economic regeneration of the province.

Britain in brief

Labour goes for image of decency

Mr Gordon Brown, the shadow chancellor, yesterday sought to flesh out Labour's vision of a fair market economy by depicting the party as defender of the "decent majority" against Conservative privilege and greed.

Mr Brown's comments, which will set the tone for the economic debate at Labour's conference in Blackpool on Monday, coincided with two opinion polls confirming Labour's strong lead since Mr Tony Blair's election as leader in July.

Officials said the contrast between Labour's commitment to fair rewards and the Tories' sponsorship of the "undeserving rich" would be a key part of Mr Blair's first conference speech as leader, on Tuesday.

However, Mr Jeremy Hanley, the Conservative party chairman, accused Labour's leaders of using "jargon and gobbledegook" to cover up the party's continuing attachment to taxation and spending. Launching a pamphlet called Rhetoric and Reality, Mr Hanley said the Labour leader was "a dedicated follower of fashion" who had "failed to stand up for his convictions" when Labour was controlled by the left in the early 1980s.

Business failures down on last year

Business failures fell by 13.4 per cent in England and Wales in the first nine months of this year, says Dun & Bradstreet, the business information group.

Figures released yesterday show that about 800 businesses failed each week in that period, a total of 31,340. This compared with 928 a week and a total of 36,203 in the same period last year.

'Alien' director buys Shepperton

Two leading British film directors, Mr Ridley Scott and Mr Tony Scott, are to buy the Shepperton Studios, west of London, in a deal thought to be worth about £10m.

The two, who are brothers, say they want to develop the studios into one of the world's leading film production facilities. Mr Ridley Scott was the director of such films as *Alien*, *Blade Runner* and *Thelma & Louise*. Mr Tony Scott directed *Top Gun* and *Beverly Hills Cop II*.

Nestlé cuts 515 jobs

A further 515 jobs are to be cut in the UK by Nestlé following the Swiss multinational's decision to end the processing of can foods in the UK with the exception of its milk products.

The company said that the decision had been prompted by price competition in canned foods and the fact that its Crosse & Blackwell brand had only a 2 per cent share of that market sector.

Universities to have chief executive

University vice-chancellors announced yesterday that they would create a new post of chief executive to help build links between higher education and the private sector.

Dr Kenneth Edwards, chairman of the Committee of Vice-Chancellors and Principals, which ended its annual conference in Birmingham yesterday, said: "Universities need to become more entrepreneurial than ever. They must find more public and private investment to restructure and re-equip for new teaching and learning techniques."

Virgin in computer deal with ICL

Virgin Group, which last year announced it was entering the personal computer market, has formalised an agreement with ICL, the UK-based computer company, to manufacture its range of desktop and notebook computers.

The deal, which includes joint marketing and distribution, is thought to be worth about £5m to ICL in the first year and at least double that in subsequent years.

The Virgin computers will be slanted towards the games and multimedia markets and marketed through both Virgin and ICL channels.

Post Office plan condemned

Government proposals to privatise the Post Office were condemned yesterday by the industry's leading user group, adding to a succession of critical responses in recent weeks.

The Post Office Users' National Council, the industry's watchdog, said it was concerned that the government's favoured option for privatisation involved splitting up the postal service, threatening levels of service.

Mr Michael Heseltine, trade and industry secretary, has yet to gain final cabinet approval for legislation to sell 51 per cent of the state-owned utility.

Britain stalls on scheme for disabled

By David Gardner in Strasbourg

The British government is seeking to withdraw its support for a European Union scheme to assist the disabled.

Money for the scheme was voted into next year's EU budget by the Council of Ministers last July, but the UK Department of Health is now taking legal advice as to whether it is bound by the decision.

The move comes on the heels of last month's decision by employment minister Michael Portillo to withdraw government departments from the priority suppliers scheme to help disabled workers.

Mr Portillo argued that EU rules on public procurement prohibited discriminating in favour of the disabled in the award of government contracts. The European Commission in Brussels insists this is not the intention of the law.

The latest instance, revealed yesterday by Mr Hugh McMahon, Labour spokesman on social affairs at the European Parliament, concerns a scheme called Handynet.

This is an EU-wide database providing information on equipment and services intended to help the disabled live independently. It comes under the Helios programme, which has been voted Ecu25m (£19.7m) from the EU budget for the next three years, of which Handynet would get some Ecu4.2m.

But in a letter to disabled people's organisations, the Department of Health on September 27 said that junior health minister Mr Gerry Malone "has advised officials that he remains to be convinced about the value of Handynet and has requested information about how the DH can withdraw its support."

"Officials have asked solicitors for their view as to whether under the terms of the original Council [of Ministers] decision, the DH can legally withdraw its support," the letter continues.

Savings to the Department would amount to the £300,000 administrative costs of the scheme.

An official at the Department of Health last night confirmed that the review was to have been completed by yesterday, ahead of a meeting of member state officials in Brussels next week. He said "we have great difficulty finding anybody in the UK who says [Handynet] is a good thing."

Mr McMahon said the "British opt-out would not end the Europe-wide scheme at this stage, but simply deprive British disabled people of its benefits."

Pay restraint policy 'failure'

By Robert Taylor, Labour Correspondent

The government's policy of pay restraint in the public sector is failing to contain market pressures for higher earnings, according to an official survey published yesterday.

Rises in the public sector averaged 2.5 per cent in the 12 months to April, the annual New Earnings Survey revealed, and came in spite of a 1.5 per cent pay norm imposed by the Treasury and a three-year public sector pay bill freeze.

The government's own employees enjoyed an average 3.9 per cent earnings rise, with substantial increases of 7.5 per cent for women secretaries and typists in the civil service and 6.8 per cent for staff in scientific and professional grades.

Senior and middle-ranking male civil servants enjoyed 3.7 per cent average earnings increases, twice the size of the government's pay target.

"This provides clear evidence that governments can no longer control pay from the centre," said Mr Chris Trinder, research director of the independent Public Finance Foundation.

For the first time since 1990, the public sector increases moved ahead of those in the private sector, which averaged 2.8 per cent.

The annual survey published by the Department of Employment provides a comprehensive picture of pre-tax earnings for full-time employees. It is based on information from employers and the sample covers 1 per cent of workers employed over the pay period which included early April.

New Earnings Survey 1994, part 1. HMSO, £13.00.

Life industry rejects accord on pension compensation

By Alison Smith and Peter Marsh

The City of London's chief regulator and the life insurance industry have failed to agree how to compensate people who could lose money from the mis-selling of personal pensions.

The discord is a sign of the gulf between the Securities and Investments Board and the life industry.

The industry has decided it will not voluntarily set up a system to deal with compensation claims for pension transfers – which some regulators now believe could total £500m. Instead, cases will be handled within existing compensation arrangements.

Details of how life companies should identify and compensate those who may lose out because they took poor advice to opt or transfer out of an occupational scheme will be published in a SIB report next month. The report is also expected to confirm findings from a pilot study suggesting that up to a third of the 500,000 or more total pension transfers since 1988 could have been based on poor advice.

The existing Investors Compensation Scheme, operated by the SIB together with the industry, acts as a safety net for those entitled to redress who find that the adviser responsible for their plight has collapsed.

Both the government and the regulator wanted separate arrangements for transfers, to avoid the risk that they would swamp the current scheme.

Compensation claims in a pension transfer case go first to the life company or independent financial adviser which mis-sold the pension. The ombudsman for the Personal Investment Authority, the new regulator to protect the private investor, will probably intervene in any dispute.

Privatisation of rail gets back on the track

Britain's fledgling privatised railway industry has spent more than half its young life under siege. The agreement reached in the early hours of Wednesday morning between the RMT transport union and Railtrack heralds an end to hostilities – but raises questions about the long-term future of the network.

British Rail handed over formal responsibility for its trains, track and stations to more than 50 semi-independent subsidiaries on April 1. The expectation was that managers could begin preparing their businesses to move into the private sector but two and a half months into this process the signalling staff began strike action.

The train operating companies saw their plans to improve the operation of trains and the marketing of their services thrown into disarray. Their collective losses rose to £200m and a nonsense was made of their accounts, which were crucial if investors were to be found to back these companies.

Railtrack, facing a strike bill of £100m, has been forced to cut back on maintenance and divert management time from planning ambitious projects such as the modernisation of the West Coast main line between London and Glasgow.

And just when the expansion of high-speed train services around the world seemed to herald a new era for rail travel, Britain's railways seemed mired in a 1970s-style dispute. Passengers and freight customers were forced to shift to other means of transport.

"There are no two ways about it. The strike has caused us damage and we have lost people to the coaches and the airlines," commented a spokesman for one of the train operating companies, South West Trains.

"The dispute has had a corrosive effect on the services we offer," said an official of the East Coast main line, which runs from London to Edinburgh. "Instead of growing the business over the next two years we will spend time getting back to where we were."

Investors who were considering backing management buy-outs have been forced to reconsider the proposition. "On the minus side the dispute will mean it will take the train operators longer to demonstrate they have established a sustainable financial record," said Mr Roger Brooke, chairman of Candover, a buy-out specialist.

It will also raise fears in the minds of investors about the possibility of another strike in one small part of the railway empire damaging the other parts, he noted.

It will certainly endanger the very tight privatisation timetable which aims to get half of railway services into the private sector by April 1996 – before the next general election begins to complicate the issue. Many Tory MPs would be reluctant to push through privatisation in the months ahead of a general election while a victory for the Labour party could stall the whole process.

In spite of all the problems which remain to be overcome, there is some cause for optimism in both the timing of the strike and its conclusion.

Coming almost at the beginning of the privatisation process, the dispute has raised – and hopefully resolved – the question of restructuring working practices before investors had made any serious commitment to the railway.

"It's a bit early in the process for fund managers to start looking at investing in the railway," commented one analyst. It will be next April before the train-operating companies produce their first annual set of figures.

By agreeing a more sensible set of working arrangements with the signal workers now, Railtrack should be able to reduce its costs.

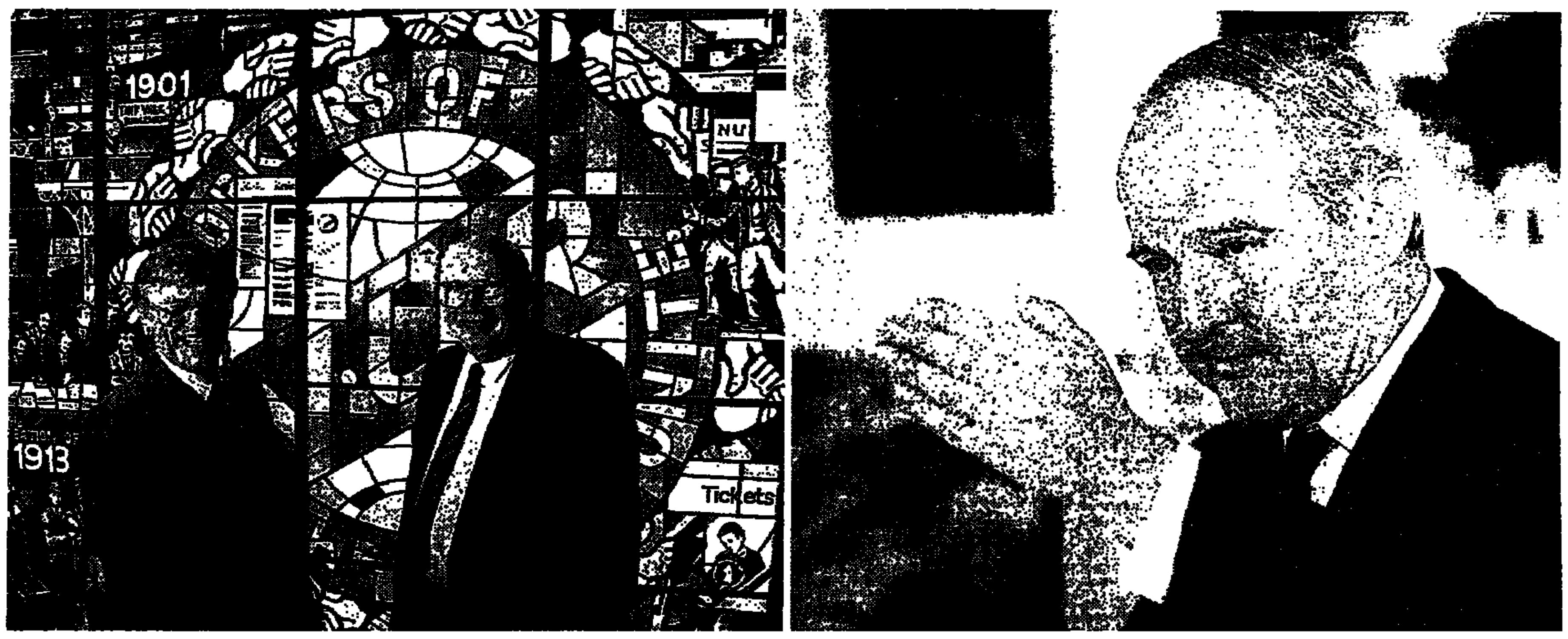
No other group of workers will have quite the power of the signal workers to shut down the entire network in future. Drivers will be employed by individual train operating companies while maintenance and modernisation work will increasingly be carried out by private-sector companies.

Some train operators point to their success in maintaining services as proof of the robustness of their businesses. "We have seen how our business can stand up to this sort of disruption," said Mr Rob Mason, managing director of Gatwick Express.

Some passengers have deserted to coaches and airlines while freight operators have shifted some consignments to road. But the convenience of rail means most will return, the operators believe.

The end to the strike will mark the start of some tough negotiations over compensation to the train operators and to freight customers. It will also focus attention on the rail industry's plans to put in place a risk-sharing scheme to spread the cost of strikes and other calamities.

Charles Batchelor

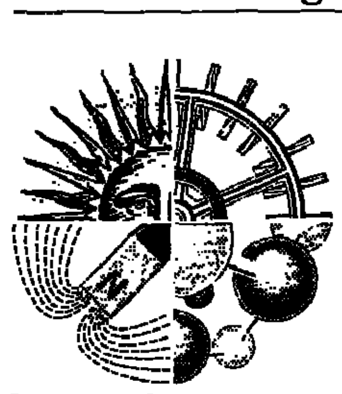


Colin Beere, Tony Andrews

RMT leaders Vernon Hince and Jimmy Knapp at their headquarters said the deal was an "excellent package" while Railtrack chairman Robert Horton called it "a victory for commonsense"

TECHNOLOGY

Worth Watching · Vanessa Houlder



A computer screen at bedtime

Although electronic publishers have scored notable successes with reference and educational books, there have been few attempts to transfer novels to the computer screen.

Penguin, the UK publisher, will find out how far readers are prepared to break with tradition when it publishes its first electronic novel in November. *Host*, by Peter James will be published on floppy disk, priced £12.99.

The electronic novel, about a computer scientist, includes the author's research material, a video introduction and an audio clip of the author explaining the background to the novel.

Penguin: UK, tel 071 416 3000; fax 071 416 3099

Contraception the natural way

A natural method of contraception, which depends on monitoring hormone levels, has been developed by Unipath, a diagnostic kit manufacturer.

The kit uses a urine test to track the level of luteinising hormone and estrone-3-glucuronide. It is used with a hand-held monitor, which calculates a woman's fertile period using information about her menstrual cycle.

Early trials indicate 98 per cent effectiveness, which is roughly equivalent to barrier methods of contraception. The product is expected to be launched at the end of next year.

Unipath: UK, tel 0234 347161; fax 0234 218781

Keying in to both text and pictures

Electronic databases can usually retrieve either pictures or text but not both. Although scanned representations of pages can be stored by databases, they cannot be manipulated.

Cascade Systems, an Ipswich-based software company, has overcome this problem in an electronic library system that allows users to work with whole pages of text and pictures which are presented in the same layout with which they were published.

The Cascade system also allows users to extract information from the database using a request couched in ordinary language, rather than by requesting specific keywords. It depends on a probabilistic search mechanism, which works by weighting each word in the request according to its frequency in the database.

Cascade Systems: UK, tel 0449 722900; fax 0449 722960

Home, ski home in the Antarctic

Scientists and technicians working for the British Antarctic Survey will spend the winter in the first mobile house on skis.

The building will house 30 people studying ice, the upper atmosphere and the climate at the Halley Research Station, the BAS's most remote Antarctic base. Every year, the ski-borne house will be moved by bulldozers to pull it free of snow and ice. The skis, which are 19.5m long, are fitted with air bags which are blown up to crack any ice that accumulates underneath them.

The pre-fabricated house, which was built by VM Fabrications, Huddersfield-based engineers and Bennett Associates, designers, will replace tent-style accommodation.

British Antarctic Survey: tel 0223 61188; fax 0223 62616

Panasonic's portable PC

Panasonic, the electronics company, has designed what it believes to be the first genuinely portable, multimedia PC.

The Panasonic CF-41 is a battery-operated, notebook PC with a CD-ROM (read only computer memory stored on a compact disc) drive which weighs less than 8lbs. The notebook will be launched at the end of October costing between £2,700 and £4,200.

Panasonic UK: UK, tel 0344 853398; fax 0344 853847

Daniel Green looks at medicine based on the immune system in the latest of a series on drug discoveries

Defence against an alien attack

Medical magic bullets come and go. From cancer cures to obesity treatments, precisely targeted drugs regularly show early promise which fades during clinical trials. Medicine based on the immune system aims to be different. It uses the natural mechanisms that can defend the human body against almost any microscopic invader. The promise is that, while drug companies spend billions of pounds developing synthetic chemicals to fight disease, the body's defensive arsenal is in place waiting to do the job. The right trigger could release a new generation of successful treatments.

The idea is one of the oldest in medicine. In 1796, Edward Jenner conferred immunity against smallpox by infecting healthy people with a milder disease called cowpox. In effect, he taught the immune system how to tackle an enemy it had not yet encountered. Since then, vaccination has all but eradicated former killers such as tuberculosis, typhoid and cholera.

New vaccines continue to be developed. SmithKline Beecham's Havrix for hepatitis A is today's world best seller with revenues of about $500m (£330m) a year.

As well as being boosted, the immune system can be suppressed. For 30 years this has helped transplant patients receive donated organs which would normally be rejected.

With the power of immune system manipulation already demonstrated, researchers promise more to come. The body's natural defences could be directed to kill cancer cells or the Aids virus HIV. Diseases in which the defence mechanisms have gone wrong, such as multiple sclerosis, rheumatoid arthritis and psoriasis, could one day be brought under control.

Unfortunately, the immune system is resistant to exploitation because of its staggering complexity. It has virtually uncountable numbers of mechanisms and components. Those discovered so far are grouped into categories with names such as scavenger cells, natural killer cells, eosinophils, T-cells, B-cells and immunoglobulins. Each can work in small numbers or be mass produced, function independently or together, influencing each other in the war against invaders.

Ian Hutchinson, professor of immunology at Manchester University, points out that there are 100,000bn different kinds of T-cell alone. Each one is pre-formed in the body and designed to attack a different invader. It is as if every man, woman and child were a crack shot with 20m types of firearm, each distinct from the next and each capable of killing just one kind of attacker. If an alien invader landed, a search would have to be mounted for the one gun that was effective. It would have to be mass produced and shipped to the landing site.

Progress in the medical version of firearm production has been slow. Some individual components of the immune system have been isolated, but this is a long way from finding the right one to cure a disease.

David Barry, director of research and development at UK drug company Wellcome, says: "There are literally hundreds of molecules that are said to stimulate the immune system. In theory, and sometimes in animal models, they work. In real life diseases, it is very difficult to prove anything."

He says that biology has not yet analysed the fine detail of how immunity works. For example, Aids patients, whose immune systems have been damaged, tend to suffer from some types of cancer and not others. Yet the exact relationship between cancer and the immune system remains unclear.

However, plenty of work is going on that could lead to new therapies within two or three years. Cancer is frequently the target, largely for the commercial reason that effective therapies are not yet available. The immune system could be harnessed in the fight against cancer if only cancer cells could be distinguished better from normal cells.

The work of New York biotechnology company Imclone Systems is typical. It has a drug called Vaccine 105AD7 which mimics a material on the surface of colon cancer cells in a way that triggers production of large numbers of killer cells able to attack the cancer. Clinical trial results published in April showed that patients receiving the drug survived for 12 months, compared with an average of three months for those not receiving it.

Cancer vaccines are being developed by several biotechnology companies. Products from Therion Biologics of Cambridge, Massachusetts, and Somatix of Alameda, California, are already in clinical trials.

Other companies are trying to use the power of immune system cells to bind to specific targets such as cancer cells to carry poisons directly to targets. But all of these products are still at a relatively early stage of development.

Closer to the market are the latest advances in suppressing, rather than stimulating, the immune system. The idea is not new. Earlier this century, doctors noticed that children with measles sometimes suffered a recurrence of tuberculosis. Measles had depressed the immune system enough for dormant TB bacteria to become active.

Similar immune suppression was observed in the 1960s as a side effect of potential cancer drugs. The first proper immunosuppressive drug, launched in 1964, was Wellcome's Imuran, a failed cancer therapy.

Immune suppression is now big business. There are almost 3,000 organ transplants a year in the UK alone, mostly of kidneys. Transplant patients take immunosuppressants for the rest of their lives.

The most widely used drug is Sandimmun from Switzerland's Sandoz. It had sales of almost $1bn in 1993, making it about the world's 30th best selling drug.

Compared with immunostimulants, Sandimmun is not very specific. This is just as well because a transplanted organ stimulates the production of up to 1,000bn different kinds of T-cells. Sandimmun is poisonous, limiting the dosage, and it depresses too much of the immune system. Patients have to be given antibiotics to prevent infection.

There are several drugs, which promise fewer side effects, being launched or close to the market. FK-506 from the Japanese company Fujisawa has over the past year received approval from many countries to go on sale. The price of about $12,000 for the first year's supply has not stopped it winning sales from Sandimmun.

In theory, immune suppression should be able to help in conditions where the immune system is over active. In the case of multiple sclerosis, parts of nerve cells are mistaken for invaders and attacked. In rheumatoid arthritis material in the joints is damaged. Even allergy is thought to result from an over-enthusiastic immune response.

Here the goal is to understand the mechanism of action and block it. Several biotechnology companies are close to marketing treatments.

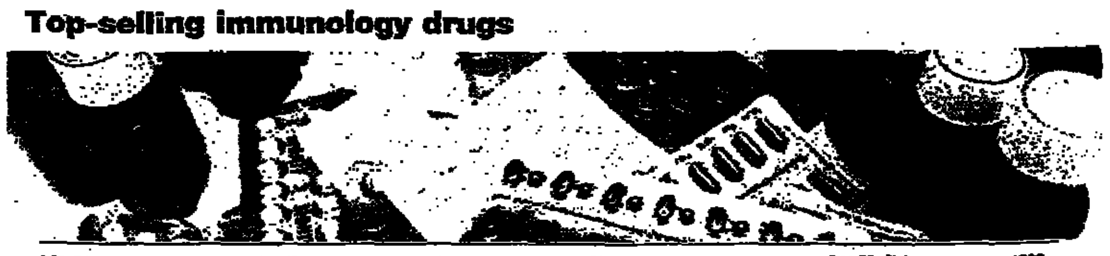
Immulogic of Massachusetts has developed a way to immobilise the T-cells that respond to cat fur and trigger cat allergy in millions of people. This spring, clinical trials indicated the company's lead product, Allervax Cat, reduced allergic symptoms in 70 per cent of patients.

Drugs for MS and rheumatoid arthritis are proving harder to find. Earlier this month Wellcome abandoned research on its drug Campath 1-H, which once promised to be a breakthrough in RA.

Such failures are commonplace in immune system drug research. The field is vast and the interlinking of biochemical processes so complex that some promising routes will inevitably prove to be blind alleys. But the immune system is pervasive and on a good day so effective that immunology is likely to prove a popular area for drug research for many years to come.

The series continues next month with a look at drugs for coughs and colds.

Top-selling immunology drugs



COMPANY	COUNTRY	BRAND	GENERIC	SALES ($M) 1992	SALES ($M) 1993	1993 SHARE
Sandoz	Switzerland	Sandimmun	cyclosporin	776	899	25.4%
Schering-Plough	US	Intron A	interferon-alpha	478	572	16.2%
Sumitomo	Japan	Sumiferon	interferon-alpha	431	539	15.2%
Roche	Switzerland	Roferon-A	interferon-alpha	152	236	6.7%
Wellcome	UK	Imuran	azathioprine	106	134	3.8%
Takeda	Japan	Canferon A	interferon-alpha	54	129	3.7%
Genzyme	US	Ceredase	glucocerebrosidase	95	125	3.5%
Ares-Serono	Switzerland	Frone	interferon-beta	108	122	3.4%
Daiichi	Japan	Feron	interferon-beta	93	112	3.2%
Johnson &Johnson	US	Timunox	thymopentin	100	100	2.8%
Johnson &Johnson	US	Orthoclone OKT3	muroMAb-CD3	70	100	2.8%

Source: Datamonitor

■ Articles over the last six months have looked at pharmaceutical advances in the following areas:

Fungi .... 25 August
Stroke .... 29 July
Painkillers .... 30 June
Blood products .... 27 May
Multiple sclerosis .... 29 April
Sepsis .... 31 March

PEOPLE

Hodkinson in surprise move

Jim Hodkinson is making a surprise return to the Kingfisher retailing group to head its do-it-yourself business B&Q, only two months after leaving the company for Home Depot, the US DIY giant.

This time he moves on to an expanded main board, as does Philippe Francès. Francès had run Darty, the French company acquired by Kingfisher last year, and is now chief executive of the entire electrical retailing sector, including both Comet and Darty.

Hodkinson, 50, was taken on by Home Depot in July as a consultant to examine expansion opportunities for the US group in Europe.

"This is a remarkable move," commented on City analyst. "How many other FTSE companies have lost an executive in July and reappointed him as a board director in September?"

Kingfisher said that after an extensive search for a new head for its DIY business, it had concluded Hodkinson was the best man for the job. This coincided with Hodkinson's decision to return to the UK from Home Depot's base in Atlanta because he was unhappy about being separated from his wife and children, who remained in Bournemouth.

Hodkinson joined B&Q as a store manager in 1972, and became operations and personnel director in the 1980s before becoming chief executive and deputy chairman. He was responsible for launching the DIY price war of 1992, with a series of promotional weekends offering huge savings. He moved on to the post of director of international development in June 1992, amid apparent disagreements between him and the chairman, Sir Geoffrey Mulcahy, over strategy.

His return to B&Q suggests those differences have been patched up, and may presage a renewed international push for B&Q. However, the priority is likely to be improving the performance of the UK operations in a difficult market, and opening more of the large-format B&Q Warehouse stores.

Kingfisher's said its appointment of Francès, 48, to the main board was a further indication that it now sees itself as a "Franco-British business".

The two new directors will strengthen the depth of retail experience on a board dominated by non-career retailers, analysts commented.

"We wanted to make sure the same emphasis was put on retail skills as on strategic skills," Kingfisher said.

Earl Peel to be adviser on Duchy of Cornwall

The Earl Peel, 46, the great-great-grandson of Sir Robert the founder of Britain's police force, is to take over from Lord Ashburton, chairman of BP, as Lord Warden of the Stanneries, an ancient title which means that he will be the senior adviser to the Prince of Wales in running the Duchy of Cornwall.

The Duchy, a mainly agricultural estate of 130,000 acres spread across 23 counties, was set up in 1337 to provide an income for the British heir to the throne. Its activities range from letting farms, to conservation, inner city regeneration and organic farming. Last year the Duchy increased its surplus by 20 per cent to £4m and its capital grew by 15 per cent to £87.7m.

The Prince of Wales, as chairman of The Prince's Council which advises on the running of the estate, operates it in accordance with his own strongly held environmental and social principles. Lord Peel, vice chairman of the Game Conservancy and a close friend of the Prince, is in the process of selling his family's 26,485 acre Gunnerside estate in North Yorkshire. He is well regarded for having transformed one of Britain's most run down estates into a fine grouse moor.

Lord Peel only joined the Prince's Council last year and has a very different business background to that of Lord Ashburton, a member of the Barings banking family. Lord Ashburton, had acted as the Receiver General – the Dutchy's financial adviser – for seventeen years before taking over as Lord Warden in 1990. Lord Cairns, chief executive of S G Warburg, took over as the Receiver General and continues to hold that post.

Lord Peel takes up his new part-time post on November

The Earl Peel: taking up an ancient title

1st. Meanwhile, Jeremy Sullivan, 49, a lawyer with particular interest in architectural and planning matters, is taking over as the Attorney General to the Prince of Wales. He succeeds Robert Carnwath, 49, who has been appointed a High Court judge. James Furber, 40, who joined Farrer & Co in 1976, has been appointed solicitor to the Dutchy succeeding Henry Boyd-Carpenter, 54, another Farrer's solicitor, who is taking over from Sir Matthew Farrer as the private solicitor to the Queen.

Jackson to quit Field Group

Barry Jackson, 48, is quitting Field Group, the carton-maker which was floated on the stock market a year ago, following a management reorganisation which has brought in Chris Simpson, 44, to oversee part of the business Jackson had been running.

The company says that Jackson, who has been with the group for five years and ran its Thatcham plant, is leaving "to pursue a broader challenge elsewhere".

Simpson, an economist who has spent ten years in the packaging industry, will be responsible for the collective performance of the group's Newcastle and Thatcham factories. It is expected that he will be appointed to the board. He has been given the new title of director designate of the food and household division, Field's second biggest business.

Keith Gilchrist, Field's chief executive, describes Simpson's appointment as an "important step" in developing a "market-led divisional structure which can also maximise benefits of scale". Simpson's packaging industry experience includes stints with Elopak and Abbey Corrugated, part of the David S. Smith Group.

Bodies politic

■ **Stefan Tietz**, of S.B. Tietz & Partners, has been elected to the board of the TIMBER RESEARCH & DEVELOPMENT ASSOCIATION.

■ **David Brilliant**, md international audit at Chemical Banking Corporation, has been elected president of the INSTITUTE OF INTERNAL AUDITORS – UK.

■ **Michael Hirst**, former chairman of Ladbroke's hotels division, has been appointed chairman of the JOINT HOSPITALITY INDUSTRY CONGRESS.

■ **George Bull**, group chief executive of Grand Metropolitan, has been appointed Grand Master of The KEEPERS OF THE QUAICH in succession to the Duke of Atholl.

■ **John Kemp-Welch**, chairman of the London Stock Exchange, and **Roger Lawson**, president of the Institute of Chartered Accountants in England and Wales, have been appointed deputy chairmen of the FINANCIAL REPORTING COUNCIL.

■ **Bob Hodson**, head of business marketing and sales for Manweb, and **Robert Martin**, partner in charge of Coopers & Lybrand's northern business advisory services, have been appointed to the board of INWARD, the regional development agency for north west England.

■ **Richard Carden**, currently on secondment to the Cabinet Office as deputy head of the European secretariat, has been appointed head of the FOOD SAFETY DIRECTORATE as from December 18.

PROPERTY

The worst of all worlds

Property cannot escape the pull of bonds, says Simon London

The latest monthly bulletin from the Investment Property Databank contains good news and bad news, but not in equal measure.

The fractional increase in all-property rental values – the first since 1990 – provides some cheer. But more evidence of rental growth will be required if property prices are to resume their upward march. After 14 months of rising capital values, the all-property index has registered a tiny decline.

The fall in capital values will not come as a shock to those at the coalface of the property market. Less inclusive indices than that produced by IPD suggest that capital values stalled in early summer.

Surveyor Richard Ellis's index, based on properties totalling £1bn managed by the firm, showed capital values running out of steam as early as May.

Yet a fall in the more broadly-based IPD monthly index adds weight to the argument that the market is facing a widespread downswing rather than isolated local problems.

How long this correction lasts probably depends on events in other financial markets. Thanks to the overhang of over-rented properties, the gravitational pull of gilts is especially strong.

IPD data suggests that about 44 per cent of all commercial property is currently over-rented. The problem is worse than in previous cycles because nominal rents have fallen so far since the peak in 1990. Even in the dark days of the 1970s, nominal rents in retail and industrial property continued to rise thanks to high inflation.

The City of London is the worst afflicted, where 57 per cent of tenants are paying rents above market levels. The degree of over-renting is also greatest in the City. Average rents paid by tenants are more than 50 per cent above levels now being achieved.

On these figures, owners of many over-rented buildings can not expect to see income growth from their investment until the end of the decade. In the meantime they have to be content with a fixed income, which makes over-rented property something akin to a corporate bond.

Just like a corporate bond, over-rented buildings are priced at yield premium to gilts – to reflect the risk that the tenant will go bust, and the relative lack of liquidity. When gilt prices fall, over-rented property is sure to follow.

Moreover, the lag between bond yields starting to rise and property values falling – between four and six months depending on which property index is taken as evidence – suggests that the last quarter of the year could take the edge off returns achieved so far.

For property to escape the pull of the bond market, investors have to believe that buildings are something more than fixed-income assets. The latest IPD data on rental values therefore points the way ahead.

Again, anecdotal evidence from the market started to show the early signs of rental recovery some time ago. Recent London lettings suggest that rents are already rising – or, at least, incentives are falling – for better-quality office space.

Brixton Estate accompanied its interim results this week with a comment that demand for industrial space, in particular, had picked up since the end of the summer.

If the pattern of previous cycles is repeated, rents will surely respond across the market before long.

"If the economy continues to grow as it is now, we should have an established pattern of rental growth by this time next year," said Mr Angus McIntosh, head of research consultancy at Richard Ellis. In the same vein, surveyor Jones Lang Wootton is forecasting 5 per cent rental growth for 1995 and 1996.

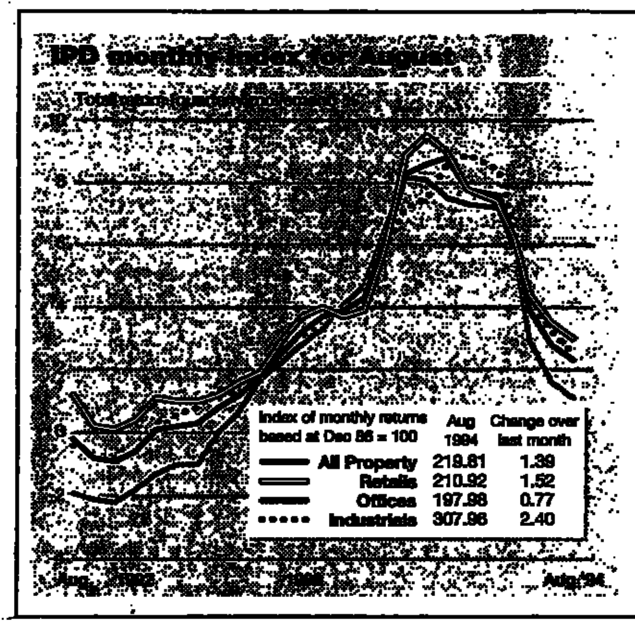
The lingering worry is that after five years of scaling down, companies are likely to consume less space even during recovery. They will also be more demanding about the kind of space they occupy.

Big, old office blocks are likely to remain empty or find tenants only at rents which landlords find bitterly disappointing.

Moreover, there is no reason why property should be immune from the deflationary pressures elsewhere in the economy. Companies which are having their margins squeezed in industrial and consumer markets will be loathe to pay more than strictly necessary for space.

These are good reasons to believe that rental growth will be subdued for some months yet, and that the bond market will continue to be a decisive influence. Of course, it is possible that the bond yields will fall through the rest of this year and next as investors come to realise that fears about inflation are overdone. Alternatively, bond market investors could be proved right by a resurgence of inflation, which would help solve the problem of over-renting.

For the moment, though, the market will have to live with the worst of all possible worlds: rising bond yields and no sign of inflationary growth.



The return on the Independent Property Databank monthly index continues to decelerate, recording 0.6 per cent in August.

Both rental and capital value growth have shown signs of changes in direction over the month, with the rental value index displaying a negligible increase from 136.44 in July to 136.45 in August. Capital values fell by 0.02 per cent, the first decline in values since May 1993. Yields remain firm with the initial and equivalent yields holding at 7.8 per cent and 8.1 per cent respectively for the third consecutive month.

For the calender year to date, the all-property rate of return stands at 13.5 per cent, just over half the 24.8 per cent recorded for the year to August. Due to the recent stability of valuation yields, longer-term rates of capital growth continue to slow, recording 14.9 per cent for the year to August compared with 15.3 per cent for the year to July.

Industrials and retails continue to switch positions as best-performing sector; industrials regained the lead with a return of 0.8 per cent in August, followed by retails at 0.7 per cent. Offices returned 0.4 per cent and continued to lag behind. In the longer term, the sectors' relative positions remain unchanged with retails returning 26.1 per cent for the year to August, followed by industrials with 25.5 per cent and offices with 22.3 per cent.

Balance	Net interest per annum	Gross interest per annum	Gross C.A.R.
£50,001+	4.13%	5.50%	5.64%
£5,001 - £50,000	3.94%	5.25%	5.38%
£2,000 - £5,000	3.56%	4.75%	4.85%
£0 - £1,999	0.38%	0.50%	0.50%

Calling all those budding writers

A challenge to budding essayists is issued today by the Financial Times and the UK's Management Consultancies Association.

It comes in the form of a jointly sponsored award aimed at encouraging managers and management consultants to write a stimulating, original and non-technical essay on a subject of current business interest.

Inspired by the government's white paper in May, the chosen topic for this year's competition is "Competitiveness - the key to success".

The winning essay, say the sponsors, "will be the one that is judged to add focus to the debate by suggesting means, structural and substantial rather than tactical and cosmetic, by which organisations can ensure greater competitiveness through appropriate management of operations".

Entries, which have to be submitted by December 1, must be between 2,000 and 3,000 words and written in English.

The winning author will receive a £3,000 cash prize and, with other suitable essays, his or her work will appear in a booklet to be published by the MCA in early 1995. The winning article will be considered for publication in the FT.

For conditions of entry and an entry form contact FT-MCA Management Essay Award, c/o Management Consultancies Association, 11 West Halkin Street, London SW1X 8JL.

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The MCA has announced the second year of its sponsorship of a prize to recognise and reward writers of management books.

The main prize of £5,000 is open to British writers of all ages, while a special commendation (worth up to £2,000) will be made to the best entry written by an author under 35.

Further information from Andrea Livingstone, 122 Fawnbrake Avenue, London SE24 0BZ. Tel/fax: 071-738-6701

Master minds

George Bickerstaffe on how the GMAT test has been changed to give a better picture of would-be MBAs

In two weeks' time about 60,000 ambitious young people will sit down in around 700 centres in more than 100 countries to take the same exam. The results will gain little publicity and few people will be aware that such a single international test is taking place. Yet the examination is a key part of the quest for would-be MBAs (Masters of Business Administration).

The exam is the Graduate Management Admissions Test, or GMAT, the only common international indicator of the quality of student applicants for MBA programmes. All but a few leading schools, notably Harvard, require it. It is increasingly controversial on several grounds – including whether some applicants have been cheating.

GMAT-takers in October face a more than usually daunting prospect. For the first time in a decade a significant change is being introduced to the test. Candidates will have to write complex essays as well as answer the traditional multiple-choice questions.

The GMAT is sponsored and directed by the Graduate Management Admissions Council (GMAC), an influential association of over 100 leading American business schools. Its administration is undertaken by the Educational Testing Service in Princeton, New Jersey, in the USA. The test takes place four times a year in January, March, June and October.

"The GMAT allows us to reduce 600 applicants for 80 places to manageable proportions," says *Kamran Kashani, MBA programme* director at IMD in Lausanne, Switzerland.

Kashani believes it is a reliable predictor of academic success, especially in the quantitative area. "Those who don't do well on the 'quantitative' part of the GMAT do seem to have trouble with subjects such as accounting and finance," he says.

"There is no doubt that the GMAT has validity."

However, the test has come in for some criticism. A number of business schools are refusing to quote average scores on the grounds that they are "misleading". Or they say the GMAT is an inadequate measurement in that it does not provide a rounded picture of of a potential candidate.

Kathleen Kiehle Valentine is admissions director of the University of Pittsburgh's Katz business school in the USA. She says that as business schools in the US attempt to diversify their applicant pool and student intake, it is no longer enough just to look at GMAT scores or academic grades.

Bradford Management Centre, in the UK, runs its own tests for British students, which it regards as a more accurate predictor than the GMAT. John Sparkes, deputy director of the centre, says that "the GMAT needs to be re-invented. It is simply too easy for students to prepare and be coached to succeed in it. I don't think that was the original intention."

There is also some concern that in such a geographically dispersed test it would appear to be relatively simple to have someone else take the test for you. There is anecdotal evidence that this can happen in a related test used by business *schools and also administered from* Princeton, the Test of English as a Foreign Language (TOEFL). Stories abound of students with good TOEFL scores arriving on programmes with only minimal English.

Kashani accepts that there are examples of individuals who get others to take the test for them. But he believes it is fairly rare and, like many other academics, sees it as "an acceptable risk".

Bill Broesamle, president of GMAC, agrees that "impersonation" is a perennial problem but adds that there are many measures, including photo identification, to gain entrance to the exam, to overcome it.

But Bradford's Sparkes warns of a potentially much more significant drawback.

"There is little doubt that there is cultural bias in the GMAT," he says. "And that works to the *particular disadvantage of the* Japanese and other nationals from the far east."

The cultural bias of the GMAT is widely acknowledged. The test exists only in English – and some say American English at that – and its multiple-choice *approach* is strange to many cultures.

"There is a cultural bias but we take that into account," says Kashani.

"We don't have a specific formula for discounting it but after a while you get a knack of assessing it and getting it right."

But because of these and other worries, the GMAT is being significantly revised. In the test next month, for the first time candidates will face two half-hour essay questions designed to test ability to analyse complex issues and to argue a position.

Traditionally, the GMAT has aimed to measure understanding and reasoning ability, both verbal and quantitative, through multiple choice questions. The highly formal *structure of GMAT has made* preparation and coaching for the undoubtedly tough test relatively straightforward.

Although the new-style GMAT retains the multiple-choice sections, both GMAT administrators and schools hope that the introduction of essay questions, which will be difficult to prepare in advance, will give a much truer picture of candidates.

"Business schools and employers have asked us to include this type of essay question," says GMAC president Broesamle.

"They are interested in students' ability to address complex issues in writing. This isn't just a test of writing *skills. It's testing thinking* ability in a different format."

Schools will continue to receive the traditional GMAT score but will also get a separate essay mark and copies of the essays.

"The essay questions should help us a lot," says the Katz school's admissions chief Valentine. "They will be a great improvement to the GMAT."

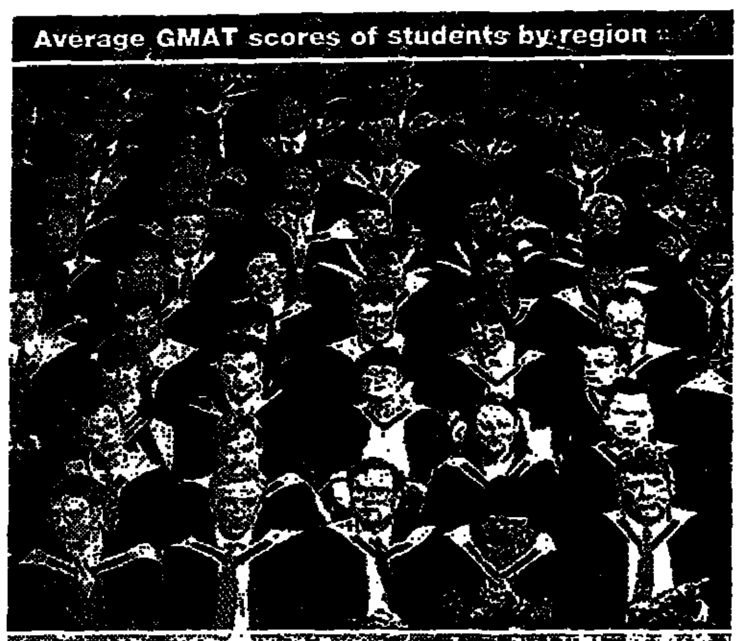
The EFMD (European Foundation for Management Development) welcomes the new essay questions particularly because they should allow non-American students to demonstrate their abilities better.

Many academics believe the *GMAT may be 10 years late in* introducing essay questions, welcome though they are.

But the belief that they will overcome the problems of excessive preparation and coaching for the GMAT may be short-lived.

GMAC's Broesamle comments that the institutions that provide such training are already gearing up to coach students in writing GMAT-style essays.

Average GMAT scores of students by region



Europe	GMAT	North America	GMAT	Rest of world	GMAT
INSEAD	650	MIT	680	Otago	619
Cranfield	627	Amos Tuck	656	Sydney	610
London	625	Chicago	650	Singapore	601
IMD	620	Yale	650	Melbourne	600
Theseus	620	Carnegie Mellon	640		
Warwick	612	McGill	640		
Dublin	610	Wharton	640		
ISA	610	UCLA	640		

Source: The Economist Intelligence Unit

Are you the uncertain type?

Adrian Furnham seeks to identify those intolerant of ambiguity

It is well known that we can be sure of only two things: death and taxes. For the rest of life, the future is uncertain. Economic and political predictions are ambiguous, mutually contradictory and frequently gloomy.

But it is not only the future that is unclear. All sorts of things in our daily lives are uncertain and ambiguous: people's motives, competitor strategies, the cause of certain illnesses.

There are those who seek out ambiguity. They like abstract art, poetry with multiple meaning, wandering in unfamiliar countries. And there are those who are made fearful and angry by it. They need order, clarity, structure and strict demarcations between right and wrong.

A person with a low tolerance of ambiguity experiences stress, reacts prematurely and avoids ambiguous stimuli, be they in art, literature, politics or emotional experience.

Those who dislike change can be seriously out of kilter with the modern world. As companies become global and multinational in terms of location, work-force and customers, these people tend to be rather xenophobic and nationalistic.

But before we condemn those uncomfortable with uncertainty to a "four-legs good, two-legs bad" world, why not evaluate yourself:

1 An expert who doesn't come up with a definite answer probably doesn't know a great deal. True or false?
2 A good job is one where what is to be done and how it is done are clearly specified. T/F.
3 In the long run it is possible to get more done by tackling small, simple problems rather than larger, complicated ones. T/F.
4 A person who leads an even, regular life in which few surprises or unexpected happenings arise has a lot to be grateful for. T/F.
5 I like parties where I know most of the people more than ones where all or most are complete strangers. T/F.
6 The sooner we all acquire similar values and ideals the better. T/F.
7 People who schedule their lives all the time probably miss most of the joy of living. T/F.
8 It is more fun to tackle a complicated problem than to solve a simple one. T/F.
9 People who insist on a yes or no answer don't know how complicated things really are. T/F.
10 Many of our most important decisions are based on insufficient information. T/F.
11 Managers who hand out vague assignments give a chance for subordinates to show initiative and originality. T/F.
12 I have always felt that there is a clear difference between right and wrong. T/F.
13 Nothing gets accomplished unless you stick to some basic rules. T/F.
14 Vague and impressionistic pictures really have little appeal for me. T/F.
15 Before an examination, I feel less anxious if I know how many questions there will be. T/F.
16 Sometimes I enjoy going against the rules and doing things I'm not supposed to. T/F.
17 I like to fool around with new ideas, even if they turn out to be a waste of time. T/F.
18 If I were a doctor, I would prefer the uncertainties of a psychiatrist to the clear and definite work of a surgeon. T/F.
19 I don't like to work on a problem unless there is a possibility of an unambiguous answer. T/F.
20 It bothers me when I am unable to follow another person's train of thought. T/F.

Scoring: The higher the score the more intolerant of ambiguity you are. Score one for each time you put T for questions 1-6, 11-15 and 20. Score one for each time you put F for questions 7-10 and 16-19.

Score 0-8: Perhaps an arty, creative type; Score 9-15: A pretty normal score. You are happy to recognise and deal with life's little uncertainties; Score 16-20: A conservative, call-a-spade-a-spade type.

The author is head of business psychology at University College London.

ARTS

The maestro of Oslo

Andrew Clark discusses the burgeoning talent of Mariss Jansons

You would never have known that most of those taking part in last weekend's performances of *Gurrelieder* at the Oslo Concert Hall were playing it for the irst time. But that is entirely characterisic of the Oslo Philharmonic Orchestra nd its chief conductor, Mariss Jansons. hey are always setting new challenges, nd meeting them in bracing style.

Schoenberg's spectacular cantata, with :s sumptuous sonorities and Scandinaian legends, was an appropriate work vith which to celebrate the orchestra's 5th anniversary. Despite an underowered men's chorus and a tricky acous:c, the performance combined momenım, depth and splendour. The soloists – ıcluding Jane Eaglen, Ben Heppner, .nne Sofie von Otter and, as the Narrator, laus Maria Brandauer – could hardly ave been bettered. At an anniversary diner the next day, the players' spokesoman, Elisabeth Sonstevold, gave a harditting speech to the effect that, despite oming from little Norway, with its scant ecognition of musical achievement, the slo Philharmonic had won worldwide cclaim.

This was reason enough to celebrate. ut anniversaries are also a time for ock-taking. Hovering over the festivities ere two questions which have increasgly preoccupied the musicians and their imirers in recent months. How long can ariss Jansons afford to stay in Oslo? And ɔw much longer can the Oslo Philharonic hold on to him?

Jansons' qualities are such that he has ı open invitation to guest-conduct the orld's leading orchestras, some of which notably the London Philharmonic and ıe Philharmonia – are looking for a new ıief conductor. Many in the music busi-ess feel it is time Jansons loosened his ıks with Oslo and moved on. They say ıat however good the Oslo Philharmonic ecomes, it will never rank in status with eavyweight orchestras in London, Berlin ıd the US. "Oslo will always seem proıncial by comparison," said one record ımpany executive attending the anniverıry celebrations. But Jansons' modesty ıd dedication, together with his loyalty to Oslo, prevent him taking the quick route to the top.

Jansons' love affair with the Oslo Philharmonic is the stuff of fairy tales. When the two joined forces in 1979, both were relatively unknown. Latvian-born but Russian by nationality, Jansons was still in the shadow of his mentor, the great St Petersburg conductor Yevgeny Mravinsky. He needed to broaden his repertoire and find an orchestra of his own. The Oslo Philharmonic offered the ideal opportunity – one to which Jansons' Soviet masters could hardly object. It was a mediocre orchestra, in a country on the musical fringe of Europe.

> *Although Jansons has an open invitation to guest-conduct the world's leading orchestras, his modesty, dedication and loyalty to Oslo prevent him from taking the quick route to the top*

Today, Jansons and the Oslo Philharmonic are part of the world's musical elite. Their tours and recordings are eagerly anticipated, as much by the wider concert-going public as by cognoscenti. Thanks largely to Jansons' tutelage, the orchestra has become renowned for its clean sound, its lyrical intensity and youthful exuberance. Although 15 years is a long relationship by current musical standards, neither side shows any sign of tiring of each other. But both have begun to ponder their future.

Jansons finds himself in much the same position as Simon Rattle in Birmingham: the pressures to move elsewhere are great. He knows that sooner or later, the time will come when he and the Oslo Philharmonic have exhausted the possibilities for mutual development. The lure of taking charge of a crack orchestra in one of the world's musical capitals is bound to assert itself. Such a move would serve the strategic interests of the two music-industry giants who coordinate his work, EMI Classics and the IMG artist agency. Jansons' dilemma is that he may never be able to repeat the conditions and chemistry he enjoys in Oslo.

For their part, the Oslo musicians are afraid they will lose their cachet on the world stage if Jansons leaves. He is fêted no matter which orchestra he conducts, but the Oslo Philharmonic has yet to develop an independent reputation. Its lucrative EMI contract, which runs till 1997, is linked exclusively to Jansons. The orchestra knows that although Jansons will always retain some form of link with Oslo, it cannot hold on to such a talent for ever. It has begun to adjust its sights accordingly. A UK tour with Paavo Berglund next autumn will test its independent appeal. It has also begun to take a longer look at its guest conductors.

For the time being, Oslo can rest assured that there is no other chief conductor's post available which would appeal to Jansons. The Royal Concertgebouw, for example, has just signed a new contract with Riccardo Chailly. Philadelphia, with its strong EMI connection, is the most likely American orchestra, but Wolfgang Sawallisch is still only settling in there – and extended periods in the US would probably be too much of a culture shock for a low-key personality like Jansons.

A full-time return to the St Petersburg Philharmonic is equally unlikely – even if Yuri Temirkanov resigned – because the orchestra is beset by financial problems, and the last thing Jansons wants is to be typecast as Russian. It is no secret that the LSO is the London orchestra he most admires, not just for its consistently high playing quality, but because it has a sharper identity, a stronger management and sounder financial base than its competitors. But the LSO has signed up Colin Davis. Jansons' work in London for the foreseeable future will be with the LPO.

A grandfather at 51 but still remarkably boyish-looking, Jansons contradicts the image of the modern maestro: his prime concern is neither money nor power, but simply to continue developing as a musician. "Once Mariss decides on something, he's totally committed," says Trond Okkelmo, the Oslo Philharmonic's manager. "He can travel the world, but he always wants to come back to Oslo. He feels safe here, he knows he's loved. It gives him room to experiment and be adventurous."

There are other reasons why Jansons has stayed – chief among them the Oslo Philharmonic's capacity for hard work and devotion to self-improvement. It also has the immeasurable advantages of a committed management, a full subscription audience and a strong touring programme. In November and December it accompanies Jansons to the US. Next summer they revisit the Salzburg Festival and the London Proms, followed by Japan in the autumn. In 1997 they will undertake a residency at the Vienna Musikverein, a rare accolade for a foreign orchestra.

Thanks to its continually expanding horizons, the Oslo Philharmonic has developed a reputation beyond the Russian and Scandinavian repertoire with which it initially made its name. Today, tour audiences are just as likely to hear Beethoven, Brahms, Bruckner and Mahler. Jansons also wants to develop its skills in the classical repertoire: there is talk of splitting the orchestra into two for short periods to focus on Haydn and Mozart. All this still leaves him plenty of scope to pursue outside interests. Having neglected opera since his youth, he will conduct *Carmen* next year at the Kirov in St Petersburg (with Olga Borodina), and *La bohème* for Welsh National Opera in 1996.

What lies beyond 1997 is anyone's guess. Jansons himself insists he will not calculate his next step. "I will wait for what life brings. If I am to move to a 'great orchestra', I must be sure it gives me the same joy as I have in Oslo. If your sole motive is to make your name bigger, you're choosing it only for the sake of career. What is the price? Should you give up artistic satisfaction and joy just to be in a big city? That is a question I would raise, without giving an answer. Each must choose. I have my own orchestra, and great joy. I am lucky to conduct other good orchestras. I have what I need."

Steve J. Sherman

The stuff of fairy tale: when Mariss Jansons joined the Oslo Philharmonic it was a mediocre orchestra on the fringe of Europe; today, together, they are part of the world's musical elite

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The Caribbean comes to theatre-land

The Royalty has been over-thrown. London's most desolate theatre has been transformed to the Island. More than that is a Caribbean Wonderland. ıe place is stiff with atmoohere, from the charming aff and a tableau of old tim: playing dominoes on the ıirs, to the spicy snacks, rum ocktails and ethnic market.

This is one theatre where 'u are positively encouraged dawdle and make a night of Stoll-Moss, owners of the old ıyalty, have thrown everyıng, including over £500,000 real money, in an attempt to ɔve that just because it is ed east of Holborn, in the vourite haunt of vagabonds d bag ladies, the Island can ll be a success.

Of course all the name anges and trimmings would futile if the Island does not oduce a hit, and with *Once in is Island* it reckons that it ıs got a banker.

The connection between the ɔ is everywhere; indeed half e auditorium is consumed by e set, with a tropical trellis eeping towards the circle. By e time you take your seat, th its bright new white coving, you are in the mood for t another "feel-good" show.

And that is exactly what you t. *Once in this Island* is a ısical set in the Caribbean, ıich has been a huge success : Broadway. A fine balance is aintained between carefree capism and social comment.

Sure, there are plenty of happy black peasants lauding the simple life and their affinity with the gods, singing their hearts out and shaking their beefy bits.

But this cliché is subverted by the plot, an embroidery on Hans Christian Anderson's *The Little Mermaid*, with the young girl offering her life to the underworld in place of the man she loves. There is also some topical tension in that the island seems to be Haiti, divided between poor villagers, who provide the heroine Ti Moune, and rich mulatto Beauxhommes, who spawn her faithless lover, Armand.

Lynn Ahrens wrote the book and lyrics and Stephen Flaherty conjures up music which borrows heavily from Caribbean rhythms. You hardly leave the theatre singing but it all fits wonderfully as a piece. Director David Toguri has concentrated the action into 90 minutes without interval, which builds to a compelling intensity, with the set contributing some exciting storms.

The cast play so well as an ensemble that individuals lose out, but Lorna Brown is enchanting as the orphan Ti Moune and Clive Rowe makes a character out of her adoptive dad. The fairy tale ending is affecting, and you would have to be a sad old curmudgeon not to leave *Once in this Island* without a warm glow.

Antony Thorncroft

Clive Rowe, singing his heart out

Alastair Muir

Theatre/Malcolm Rutherford

The Constant Wife

Somerset Maugham's *The Constant Wife* had an unfortunate first night in London in 1927. The theatre management messed up the ticket sales, put the rope barrier separating the the pit from the stalls in the wrong place and, as the curtain was about to go up, the audience was quarrelling loudly about who should be sitting where. The house manager was obliged to appeal for calm.

That may have unnerved the players, including Fay Compton in the wonderful part of Constance. At the end she thanked the "civil members" of the audience for their behaviour, only to be greeted by cat-calls.

It may also have unnerved the critics. The play was not well received and ran for only 70 performances. Earlier it had fared much better in the US. Constance was Ethel Barrymore, an actress with a tendency to forget her lines. "Darling," she told Maugham after the first night, "I've ruined your play, but don't worry, it'll run for two years." She wasn't far out.

So it is good to have a British revival now. Constance, here played by Fiona Fullerton, remains as sparkling a part as ever, though perhaps less surprising in the 1990s.

Happily enough married to a high-earning Harley Street surgeon who has a girl-friend on the side, Constance (constant to what and to whom?) realises that a woman, too, can break bounds provided that she has economic freedom. Thus she goes into interior decorating with a female business friend and makes money on her own. The demonstration of financial independence and the fact that a woman can behave just like a man stuns her husband.

Some writers about Maugham say that this was very radical at the time and too much for an English audience to accept. I wonder. Feminist independence, toughness and wit had already surfaced in the plays of Shaw, Granville Barker and Githa Sowerby, let alone Shakespeare.

The particular distinction of *The Constant Wife* lies in its ambiguity. The play suggests that there was a turning point when women could go into business. Constance was not unduly out of sorts with a husband whom she knew to be errant, even when her family thought that she was ignorant. She knew that she was provided for and had a good lawyer in the event of a mishap.

She may have gone into business, and into an affair with an old admirer, just to teach her husband a lesson. At the end we are not quite sure whether she will come back to her husband or whether the husband will learn the lesson. The answer to the first question is probably yes; the answer to the second is doubtful. Indeed one of the delights of the piece is that practically every line is full of irony and double meaning.

After a slowish start, Ms Fullerton plays Constance with mounting dominance. She catches both the period nature of the play and its modernity.

There are other stars. Terence Wilton as the surgeon shows how boorishly insensitive an otherwise accomplished Englishman can be. Nigel Davenport has a marvellous bit part as the injured, not quite pukka husband who makes his money in the City. Sheila Allen plays the mother with the deliberate recognition that in the mid-1920s you could not have quite the authority of Lady Bracknell.

It is not a perfect play, but it is immensely worth seeing. Directed by Peter James under the banner of Pericles Productions, it is at Richmond this week before moving on to Barnstaple, Canterbury and other venues. At Richmond there is a novel piece of sponsorship. The Petersham Hotel is sponsoring the entire Richmond autumn season and the theatre has picked up matching funds from the government's Business Sponsorship Incentive Scheme.

INTERNATIONAL

ARTS GUIDE

I EXHIBITIONS

AMSTERDAM
Rijksmuseum The Renaissance int 1470-1500. Ends Oct 30. osed Mon
an Gogh Museum Van Gogh's elf-Portraits. Ends Oct 9. Daily
BASLE
Kunstmuseum Fernand Léger 881-1955): an exhibition focusing ı the major creative period from)11 to 1924, with more than 100 *xhibits from international museums* ıd private collections, as well as ɔm Basle's own rich collection. *ıds Nov 27. Closed Mon*
BERLIN
Brücke Museum Early Kandinsky: survey of a little-known period in e German Expressionist's *evelopment*, before he made his st abstract painting in 1910 at the ge of 44. Kandinsky's early work is vealed as full of diverse fluences, from Biedermeyer to the auves. Ends Nov 27. Closed Tues
ltes Museum Eldorado: re-Columbian gold treasures from outh America. Ends Jan 8. Closed ıon
Kunstgewerbemuseum Gianni *Versace: retrospective of the Italian* fashion designer, including sketches and theatre costumes. Ends Nov 25. Closed Mon
BRUGES
Groeningemuseum Hans Memling: a 500th anniversary show grouping some 40 works by the 15th century Flemish master, including a number of fragile loans from as far afield as Pasadena and Gdansk. Ends Nov 15
CHICAGO
Art Institute Goya: 100 small-scale *paintings*. Ends Oct 16. Daily
COLOGNE
Wallraf-Richartz-Museum Wilhelm *Leibl: 150th anniversary tribute to* the Cologne painter who was leader of German Realism in the late 19th century. Ends Oct 23. Italy in 19th Century Photography: 200 original photo-portraits of old Italy, captured during the earliest years of photography. Ends Dec 4. Closed Mon
ESSEN
Villa Hügel Paris - Belle Epoque: *an evocation of the period from* 1880 to 1910 with paintings, drawings, posters, photographs, *glass and furniture*. Ends Nov 13. Daily
FLORENCE
Museo Pecci The Last Dreams of Joan Miró: some lesser-known late works lent by the Pilar Foundation, which was set up by Miró in 1981, two years before his death. Ends *Oct 30. Daily*
FREIBURG
Kunstmuseum Picasso: 240 drawings from the Eberhard Kornfeld Collection, covering virtually the whole of Picasso's working life.
Ends Nov 20.Closed Mon
HILDESHEIM
Roemer und Pelizaeus Museum China - Cradle of Culture: a survey of Chinese art and culture from the third millenium before Christ until the 19th century, including ceramics, porcelain, metal sculptures, paintings, calligraphy and textiles. Ends Nov 27. Daily
LEIPZIG
Museum der bildenden Künste Lucas Cranach (1472-1553): an important retrospective of the German Renaissance master, *whose work ranged from biblical* scenes to the female nude. Ends Nov 6. Closed Mon
LONDON
Hayward Gallery The Romantic Spirit in German Art 1790-1990: a survey ranging from *Caspar David* Friedrich to the present day. High points include the section devoted to Expressionists such as Kandinsky, Klee and Marc, and work from the 1920s by artists such as Ernst, Schwitters and Schlemmer. The postwar era is represented by Beuys, Baselitz, Kiefer, Polke and Richter. Ends Jan 8. Daily
Royal Academy of Arts The Glory of Venice: a major exhibition including work by Tiepolo, Piazzetta, Canaletto, Bellotto, Guardi, Canova and Piranesi. Ends Dec 14. Daily (advance booking 071-240 7200)
British Museum Greek Gold - *Jewellery of the Classical World*. Ends Oct 23. Daily
Courtauld Institute Conrad Felixmüller (1897-1977): the first exhibition in Britain to explore the graphic work of the major second-generation German Expressionist, tracing his *engagement with political and* domestic themes during the Weimar Republic. Ends Oct 30. Daily
LYON
Musée des Beaux-Arts Maurice Denis: the first retrospective in France since 1970, with more than 200 canvases, sketches and objets d'art by the Nabis artist. Ends Dec 18. Closed Mon and Tues
MADRID
Fundació la Caixa Kandinsky and Mondrian - Two Roads Toward Abstraction: this exhibition marks the 50th anniversary of the deaths of two great pioneers of modern art. It covers the years 1911-20, *and aims to illustrate the parallels* and differences in their stylistic evolution. There are 35 canvases by *Kandinsky and 56 oils, drawings*, watercolours and gouaches by Mondrian. Ends Nov 13 (after which it will transfer to Barcelona). *Closed* Mon
Fundacion Juan March Treasures of Japanese Art: 110 works from the 17th to 19th century, on loan from Tokyo's Fuji Art Museum. Ends Jan 22. Daily
MANTUA
Palazzo Te *Leon Battista Alberti*: the first exhibition ever to be devoted to the Renaissance genius. The show includes computer-constructed scale-models, drawings, miniatures and first editions of Alberti's works, lent by American and European *museums* and private collections. Ends Dec 11. Closed Mon
MARTIGNY
Fondation Pierre Gianadda From Matisse to Picasso, Masterworks from the Gelman Collection. Ends Nov 1. Daily
MUNICH
***Kunsthalle der* Hypo-Kulturstiftung** Edvard Munch and Germany: 100 paintings by *Munch, mainly from Norwegian* museums, plus a selection of work by late 19th century German artists who influenced him, and by early Expressionists who found inspiration in works like The Scream. Ends Nov 27. Daily
Lenbachhaus Tanzania: more than 400 masterworks of African sculpture. Ends Nov 27. Jon Groom (b.1953): 25 paintings by the avant-garde Welsh artist. Ends Oct 16. Closed Mon
NEW YORK
Museum of Modern Art Cy Twombly (b1929): 45 paintings, the same number of works on paper *and a representative range of* sculpture, documenting the career of the American artist who moved to Italy in 1957. *Ends Jan 10*. The Prints of Louise Bourgeois: 140 works by one of America's most distinguished contemporary artists. Ends Jan 3. Closed Wed
Metropolitan Museum of Art Origins of Impressionism: a landmark exhibition of 150 paintings *by the avant-garde artists who* worked in Paris during the 1860s, including Manet, Monet and Renoir. Ends Jan 8. The Annenberg Collection of Impressionist and Post-Impressionist Masterpieces. Ends Nov 27. Stone Vessels from Ancient Egypt. Ends Jan 29. Closed Mon
Guggenheim Museum Japanese Art After 1945: a comprehensive history of Japanese avant-garde art over the past 50 years (at SoHo). Ends Jan 8. The main museum is closed on Thursday and the SoHo site on Tuesday
PARIS
Grand Palais Poussin: the first Paris retrospective for 30 years, *marking the 400th anniversary of* his birth. It brings together 140 drawings and 100 paintings, including the two sets of Seven Sacraments and some of Poussin's finest paintings on classical and biblical themes. Ends Jan 2. Gustave Caillebotte (1848-1894): a retrospective of 89 oils and 28 drawings marking the 100th anniversary of the death of the painter and patron of art who belonged to the circle of the Impressionists. Ends Jan 9. Closed *Tues, late opening Wed*
Louvre From Across The Channel - British Art in French Public *Collections: paintings by* Gainsborough, Reynolds, Constable, Lawrence and Turner, plus other drawings, watercolours and engravings. Ends Dec 19. Closed Tues (Hall Napoleon)
Musée Carnavalet The English in Paris in the 19th Century. Ends Dec 5. Closed Mon (23 rue de Sévigné)
ROME
Palazzo delle Esposizioni Louisa *Nevelson: 77 "large originals"* by the American sculptress who died in 1988. Ends Oct 31. Closed Mon
ROTTERDAM
Museum Boymans-van Beuningen Alexej Jawlensky (1864-1941): retrospective of the Russian-born artist who was a member of *Kandinsky's circle in Munich*. Ends Nov 27. Closed Mon
STUTTGART
Staatsgalerie *Max Beckmann* (1884-1950): 70 paintings covering the entire career of one of the leading German Expressionists. Ends Jan 8. *Closed Mon*
TURIN
Gallerie Civica d'Arte Moderna A Celebration of Art Nouveau: the show takes the form of a re-evocation of an exhibition held in Turin in 1902. Ends Jan 22. Closed Mon
VENICE
Palazzo Grassi *Renaissance* Architecture from Brunelleschi to Michelangelo: 250 works from European and American public collections. Ends Nov 6. Daily
WASHINGTON
National Gallery of Art Milton Avery (1893-1965): 67 works on paper by the *American artist. Ends* Jan 22. From Minimal to Conceptual Art - Works from the Vogel Collection: 90 drawings, photographs, paintings and sculpture by contemporary artists, including LeWitt, Christo, Ryman, Beuys and Flavin. Ends Nov 27. *Robert Frank: 150 works by the* seminal American photographer. Ends Dec 31. Daily
National Museum of American Art Luis Jimenez (b1940): 41 dramatic *fibreglass sculptures by the* Mexican-American artist, together with the drawings which prefigured them. Ends Jan 2. Daily
ZURICH
Kunsthaus Dada Global: *paintings*, drawings and collages by Duchamp, Man Ray, Ribemont-Dessaignes, Max Ernst and others, plus posters, letters and *other documents relating* to the nihilistic movement founded in Zurich in 1916. Ends Nov 6. Closed Mon

PERSONAL VIEW

Ukraine's blueprint

President Leonid Kuchma outlines the case for further aid

When Ukraine became an independent country in 1991, it was poorly prepared. The state lacked elementary national institutions, and our terms of trade deteriorated sharply, as Russia raised its energy prices in 1992, leading to a severe structural balance of payments deficit.

During the past couple of years, Ukraine has also been the victim of misconceived economic policies. As a result, it was hit by hyperinflation of 10,155 per cent in 1993, as well as a drastic fall in production, a sharp decline in the standard of living, and corruption. But to its credit, Ukraine enjoyed democratic presidential elections and a smooth transfer of power this summer.

By 1994, the economy was in a terrible state, with two overwhelming problems facing the country. First, the budget deficit was projected at 20 per cent of gross domestic product for this year. Second, our trade deficit was running at \$3bn a year. I have made the solution of these two challenges my political priority, because if they are not brought under control, the very survival of Ukraine could be endangered.

To make my priorities clear to the international community, I invited Mr Michel Camdessus, managing director of the International Monetary Fund, as my first official foreign guest after being elected President of Ukraine in July. Two months later, Ukraine concluded its first agreement with the IMF, on a Systemic Transformation Facility (STF), finally signed yesterday.

We are initiating comprehensive economic reforms in Ukraine, drawing on the successful experiences of other countries in transition from administrative command economies to a market economy.

We have been successful in maintaining our budgetary revenue at about 40 per cent of gross domestic product. But our first step will be to bring down the budget deficit for this year to 10 per cent of GDP.

To accomplish this, we have decided to undertake some important reforms. We shall unify our exchange rate and abolish all import subsidies, although that will bring about substantial price increases of imported oil and natural gas. Similarly, to reduce large subsidies for coal, we shall allow the domestic price of coal to rise. Certain agricultural prices will also have to rise, and rents will be gradually increased to reduce housing subsidies, but compensation will be given to the disadvantaged and a social safety net will be developed.

The National Bank of Ukraine is already pursuing a responsible monetary policy. It has brought inflation down to 2.5 per cent a month in both July and August of this year, though certain parliamentary decisions in August have led to a number of agricultural credits that have boosted inflation in September and depressed the free market exchange rate.

The second step will be taken at the beginning of next year. It is my intention that Ukraine shall conclude a fully-fledged "stand-by" agreement with the IMF this year. I then want my government to implement a macro-economic stabilisation programme. The budget deficit must not be larger than can be financed – at about 5 per cent of GDP.

Prices will be further liberalised and domestic trade completely so. All remaining export restrictions can then be abolished. In parallel, I intend to activate small-scale privatisation and initiate a mass privatisation before the end of this year.

Our present tax system is a shambles, with far too many loopholes and tax rebates. I have instructed my administration to put the system into order before December. Draft legislation has already been drawn up, cutting tax rebates to reasonable levels by international standards.

Leonid Kuchma: 'People are prepared to bear the costs'

The short-term symbol of success will be the stabilisation of the national currency, the hryvnia, in terms of both domestic prices and the exchange rate. Therefore, I want to peg the exchange rate of our currency from the beginning of 1995 and exchange our provisional coupon currency for our national currency. Its stability will symbolise Ukraine's maturing statehood.

The people of Ukraine have decided to put the economy right and we are prepared to bear the costs of adjustment. However, our economic situation is difficult, and our imports have already been reduced to a bare minimum. Further reductions would cause more suffering than I can justify to my people.

I am appealing to the international community to provide Ukraine with serious financial support now that Ukraine has become serious about reforming its economy. We are already working closely with the IMF, the World Bank and the EBRD, but we shall need bilateral financing from the Group of Seven and other western countries, as well as Russia, which is de facto our main creditor.

The G7 promised Ukraine financial support of \$4bn at its summit in Naples last July. This financing should now be forthcoming.

Ukraine's need for international financing is quite obvious. Even after severe cuts in our imports, the current account is likely to amount to \$3bn next year. Essentially, the whole deficit is being caused by imports of oil and natural gas from Russia. Therefore, international financing needs to be made available for our energy payments to Russia.

Our international reserves are run down and they need to be replenished by at least \$1bn. In order to introduce the hryvnia, Ukraine will need a stabilisation fund of \$1.5bn, so that a stable exchange rate can be defended. Altogether our financial needs for 1995 amount to \$5.5bn, and the IMF has assessed our balance of payments need for the rest of this year at almost \$1bn.

A first tranche of the STF will provide us with \$360m, but that will not be enough. We have proposed to the US that \$200m of unused technical assistance grants be transformed into balance of payments grants. For the rest, we hope for matching funds from other countries.

One of Ukraine's many advantages is that its foreign debt is actually limited, at about \$7bn, including the arrears on energy deliveries from Russia and Turkmenistan, while we estimate that our total export of goods and services will amount to \$15bn this year. A large part of our current debt consists of arrears that need to be regulated and rescheduled so that we can repay them.

As our economy becomes more open, we also hope to attract substantial foreign investment. With an excellent geographical location and a highly educated labour force, Ukraine is well placed to achieve high economic growth in the future.

But our chances of success will be greater if we receive appropriate international financial support to facilitate our transition until private investments start flowing in.

The author is president of Ukraine

Joe Rogaly

The generation game

The Labour conference in Blackpool next week will be dominated by the party's new leader. The Conservative conference in Bournemouth, which follows a week later, will show us how in thrall the Tory leader is to his party. By noting to what degree those expectations are met we will have a truer measure of the state of British politics than any opinion poll can offer, however "adjusted" the figures.

Labour's conclave will be an occasion for revering the memory of the late Mr John Smith, and an opportunity for advertising two propositions. The first is that the people's party has cast aside the characteristics that have lost it four successive elections since 1979; the second that Labour is possessed of a coherent idea of the different brand of management it proposes to apply to the market economy. The Tory assembly, which looks to be a dolorous midterm affair, will serve the government best if it passes us quietly by. The party will damage itself if it offers any new nostrums, like, say, "back to basics".

When we recall, briefly for it is painful, the recent meeting of the Liberal Democrats in Brighton, we can see how well-placed the people's party is. Mr Paddy Ashdown, the Lib Dem leader, expressed a longing to serve Labour in any capacity with which it might graciously choose to honour him. Mr Tony Blair, Labour's leader, can only have concluded that when the time comes he will have Paddy for breakfast. Meanwhile, Mr Blair need not show his teeth other than in smiles. The Lib Dem disarray has simplified his task for next week, which is to project himself as the undisputed leader of all non-Conservative voters.

Nothing could be easier. The picnic lies before him. Who is there to upset it? Aneurin Bevan is long dead, his ghost banished. Labour nearly fell apart at Blackpool in 1959, when Mr Hugh Gaitskell, then leader, sought to persuade a special conference to embrace the mixed economy. Mr Bevan, then deputy leader, loyally demurred. "The problem is one of education, not of surrender!" he said, in what turned out to be his last speech, the text of which is to be found in Mr Michael Foot's biography. "This so-called affluent society is an ugly society," the great socialist orator went on. "It is a vulgar society. It is a meretricious society. It is a society in which priorities have gone all wrong…"

The picnic lies before the Labour leader. Who is there to upset it? Aneurin Bevan is long dead, his ghost banished

Later, in an article for the leftwing paper, Tribune, he talked of the division between "fundamentalists" and "pragmatists". Today the latter are termed "modernisers"; as to the former, they took the view, Mr Bevan wrote, that if the Labour party was to abandon its main thesis of public ownership, the only conflict with the Tories would be "about nuances, about semitones and half-tints…" He could not be faulted for that. The triumph of socialism, which he regarded as inevitable, did not come to pass. The triumph of capitalism will be celebrated under the Labour banner, in that same Blackpool in which Mr Bevan thundered 35 years ago.

Mr Blair may use contemporary language, referring to renewal, community, the connection between strong social support and the strength of individuals and the like. He will doubtless remain true to the ethical foundations of his beliefs. The meretricious elements of free-for-all capitalism will rightly be rejected. But set against the exchange of ideological passions during most of this century, what Labour has to offer next week can only be better nuances, more attractive semitones, more appealing half-tints.

Thus constrained, it could be difficult for Mr Blair, who was six years old when Bevan delivered that speech, to arouse the sense of idealism that motivated young Labour activists during the glory days. Social and economic changes have made it doubly difficult. In *No Turning Back*, a report* by Ms Helen Wilkinson, 29, it is suggested that people aged between 18 and 34 are driven by values starkly different from those that move the older generation. The young are not "sustenance-driven", which I think means they are at ease in the welfare state, are content when hopping from job to training to job, and comfortable with part-time employment. They take equality between men and women for granted. They seek excitement. This is a picture of optimistic youth, partly based on market research abstractions that Mr Ashdown was wont to quote some years ago.

Some of it, such as the remarkable finding that the young are interested in sex, will bring a nostalgic smile to the faces of those of us who will never see 34 again except on a door. The central perception, which is that today's young women are better educated, less obsessed than were their grandmothers with marriage and childbearing, determined to work, self-motivated, and assertive is if not exactly brand new, helpfully expressed. With the changing roles of the genders on their minds, it is not surprising that many of them are cool about traditional party politics.

Mr John Major, 51, is unlikely to enthuse them. When the prime minister addresses the Conservative conference a fortnight from today, he will presumably boast of his government's performance. He can hardly trumpet the record on crime, with the home secretary tied in knots. He should give honourable mention to his new education secretary, an excellent choice, and his chancellor. The Tories are presiding over a period of growth and low inflation. The part played in achieving that miracle by the ejection of sterling from the exchange rate mechanism of the European monetary system will not be stressed. Mr Major always promises lower taxes, but may not dwell on who increased taxation in the first place.

He should seek to allay the anxieties of an electorate that has endured a long recession and lost confidence in the durability of any job. He could, with justification, point proudly to his role in establishing peace in Northern Ireland. He usually wraps himself in the Union Jack, and may be expected to sound a trifle more anti-European than the last time he ratcheted towards the sceptics. He will have done well if a speech like that crowns a conference in which gaffes are kept to a minimum, ministers refrain from making coded attacks on their colleagues, and delegates are sent home whistling Dixie.

*From Demos, 9 Bridewell Place, London EC4V 6AP, £7.95

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Bank loan would open door to a pension

From Mr Geoff Arnold.

Sir, I read with some interest the comments from Roger Key, partner at consulting actuaries, R Watson, concerning retrospective pension accrual for part-time workers ("The European Pensions Ruling", September 29).

Mr Key is reported as saying that, in the context of contributory schemes, part-time workers were unlikely to have the sums necessary to buy retrospective benefits.

In order to protect the financial interests of such employees, I feel that it is important to take issue with this view. Consider the simplified example of a part-time worker who is one month from normal retirement date with back-service to 1976.

A short-term bank loan could be taken to pay for past employee contributions. In principle, one month later such a loan can be repaid in full from tax-free cash arising from the pension benefits. The pensioner would then be free to enjoy the residual pension in return for a nil net outlay.

A little creative thought will also produce solutions for less convenient cases (eg, exploiting any early retirement provisions or exploring the practicalities of waiting until retirement date before claiming past pension rights).

Geoff Arnold,
Actuary, R K Harrison Financial Planning,
3/4 Royal Exchange Buildings, Cornhill, London EC3V 3NL

Best practice must come sooner, not later

From Ms Mary Keegan.

Sir, I share Barry Riley's optimism in his article on accounting frameworks ("Prudence and pragmatism in German reporting", September 28) that good financial statements will eventually drive out the bad. I wonder, however, whether Europe can or should wait that long?

Faced with a requirement for new capital, it will be increasingly tempting for companies to look to the integrated capital market of the US, where the financial reporting rules, although onerous, are coherent. The implications for the fragmented equity markets of Europe are clear.

European accounting standard setters, governmental or private sector, must work fast to provide a financial reporting framework that truly matches the concept of the single market.

Mary Keegan,
director of professional standards,
Price Waterhouse,
Southwark Towers,
London SE1 9SY

No good on the button

From Mr K M R Price.

Sir, Your report, "MEPs back more funds for Ulster" (September 28), tells us that four Euro-MPs "inadvertently pressed the wrong button". It does not take much intelligence to be a Euro MP, but they ought to be able to press the correct button. A chimpanzee has a 50 per cent chance of getting it right. Let us hope they never get their fingers near a button which matters.

K M R Price,
Shepherds Barn,
Shelfield, Alcester,
Warwickshire B49 6JW

IFC record shows that it still has a role

From Mr Mark Constantine.

Sir, Your leader, "Frontier Finance" (September 21), questions whether the International Finance Corporation (IFC) still has a useful role to play in promoting private sector development. Based on our record performance during the 1994 financial year – almost \$2.5bn approved for 231 projects in 65 countries – this question is, to say the least, rather surprising. In fact, IFC's rapid growth over the past few years demonstrates that our role, far from being undermined, is broader than ever.

IFC welcomes the increase in private investment into developing countries, where we have been building local capital markets for 35 years. To cite just one example, IFC introduced the country fund as an investment vehicle. We like to think we helped develop today's emerging market industry.

Even in countries that have access to the international capital markets, IFC can play a very important role. For example, we invest directly in the second-tier companies that typically have difficulty raising long-term finance, and provide credit lines to local financial institutions for lending on to small- and medium-sized companies.

Moreover, despite the current interest in emerging markets, more than 75 per cent of foreign direct investment in developing countries remains concentrated in only 10 nations. In the many developing countries that are still unable to attract substantial foreign capital, IFC plays a vital role as a "gateway" for the private investment crucial to fledgling private sectors. More than half our projects involve international commercial lenders for which IFC's presence is a critical factor in their decision to lend.

IFC has been investing in developing countries since 1956. While we cannot claim all of the credit for the good things that have happened in the developing world in recent years, we do feel that we have made some significant contributions. We are in it for the long haul, and look forward to working with governments and investors in continuing to promote investment in the developing world.

By the way, we were flattered by your reference to IFC as the Starship Enterprise of the developing world. We think Captain Kirk would agree that it is not yet time to mothball the Enterprise.

Mark Constantine,
manager, corporate relations,
International Finance Corporation,
1818 H Street, NW,
Washington DC 20433,
US

Damaging programmes will remain a problem

From Ms Jessica Woodroffe.

Sir, The trouble with the chancellor Kenneth Clarke's otherwise excellent proposal to use International Monetary Fund gold to reduce third-world debt is that it leaves damaging structural adjustment programmes (SAPs) intact ("Clarke proposes IMF gold sale to help poor nations", September 26). Nor may sales of 10 per cent of the IMF's gold be quite enough.

At least the chancellor's proposal is a recognition that multilateral debt, owed to the World Bank and the International Monetary Fund, is itself a problem. But his initiative requires an expansion of the enhanced structural adjustment facility (ESAF).

The experience of Christian Aid and other agencies is that structural adjustment (promoted by ESAF) is damaging the poorest people in debt-burdened developing countries. Not for nothing are SAPs said to stand for "Suffering African People". For the poor, SAPs mean cuts in spending on schools, health centres and on government jobs. Currency devaluation forces up the prices of everything from imported medicines to bus fares, which depend on imported fuel.

Ten per cent of the IMF's gold will be needed to wipe out the debts to the IMF of Africa alone. If the price of reducing debts is even more structural adjustment, it may be a price the poor are unable to pay.

Jessica Woodroffe,
policy adviser, Christian Aid,
PO Box 100, London SE1 7RT

Employers still glorify youth when seeking staff

From Mr Osman Streater.

Sir, In your "Survey of business locations in Europe" (September 27) you published a thoughtful article by Eva Kaluzynska about how the ageing population of Europe and the "baby bust" or decline in the birth rate meant that "canny employers" should understand that their current emphasis on youth was soon going to start damaging them.

However, recruitment advertisements on September 28 reveal the familiar picture, "ideally aged 27-35", "mid 20s to early 30s", "individuals aged 23-35". Scant evidence that employers have received the message from the team leader of Eurostat's project on demography, quoted by Ms Kaluzynska, that "this will stop".

This glorification of youth as the essential qualification becomes particularly offputting when it is applied to jobs managing other people's money. One pension fund apparently thinks that 10 years' experience is adequate to be the person in charge of a £2bn pension fund. I am glad to say that my pension fund is not with them. A private client stockbroker is looking for candidates "likely to be aged 22-28", and with a "minimum of two years' front office stockbroking experience", to discuss their investments with clients. I am likewise relieved that they are not my private client stockbrokers. Am I mad, or are they?

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FINANCIAL TIMES

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Friday September 30 1994

Defying the cruel sea

Ferries are among the safest vessels afloat. But, as the tragic sinking of the Estonia with the loss of more than 800 lives demonstrates, when they do go down the toll in human life can be high. As ferries increase in size, so the numbers on board at risk from mechanical failure or a crew error go up. The move to roll-on roll-off ferries with vehicle decks which run the entire length of the vessel has increased the risk that once the sea penetrates the hold through the bow doors or a gash in the ship's side, it can lead to the vessel capsizing.

The United Nations International Maritime Organisation (IMO) and its members the ship-owning nations have devoted much thought over the past two decades to ship safety. But the sinking of the Estonia should lead to a new review of ferry safety. Particularly worrying are the eyewitness reports which suggest that water penetrated the bow doors in a manner reminiscent of the sinking of the Herald of Free Enterprise in 1987. Unlike the Herald the Estonia appears to have had its doors closed but ro-ros are very vulnerable to water penetration.

Any review of ferry safety should focus on three main issues. First the subject of ferry design should be reconsidered. Additional stability could be provided by the addition of sponsons, stabilising bulges which project from the ship's side just above the water line. Greater resistance to an influx of water could be obtained by installing moveable barriers or bulkheads to break up the large car decks.

These proposals were looked at by the British government in the wake of the sinking of the Herald of Free Enterprise. It calculated that it would cost between £70m-£85m to improve standards on the 57 vessels in the UK ferry fleet with a further £22m to meet in additional annual running costs.

Higher costs would inevitably lead to higher fares when, on the short cross-Channel routes, the ferries face competition from the Channel tunnel. Pushing through fare rises would be difficult, but not as damaging to the ferry companies as another disaster.

Second, the IMO and national governments must look closely at how to improve the enforcement of existing regulations. The IMO has already been trying to move enforcement up its agenda, but it depends on the good will and professionalism of governments and shipowners. Third, the IMO should be given support by national governments in its campaign, launched yesterday, to improve the quality of crew training. Much of the regulation introduced in recent years has concentrated on improving the ship and its equipment.

Above all, if new regulation does turn out to be necessary, it must be introduced speedily. As things stand, it can take years before changes are ratified by enough member governments to give them force. The European Union, which Sweden and Finland are about to join, could take a lead in speeding up the process.

Ship safety is not, of course, just an issue for the ferry sector. Five (small) ferries were lost last year, according to Lloyd's Register. But this figure pales into insignificance compared with the 96 general cargo ships and 12 tankers which also went down.

When a cargo vessel with a third world crew goes down in a distant ocean very little attention is paid. If the loss of a relatively modern passenger vessel in European waters can make shipping safety a higher priority for governments and the public this will be some small compensation for the loss of life from the Estonia.

Ratifying Gatt

The Uruguay Round is apparently never safe. Now the problem is ratification, which is supposed to be finished this year. But difficulties are arising, not least in the US.

Mr Clinton can be criticised on many counts, but on trade – with the major exception of his administration's narrow-minded approach to Japan – he has been largely right. He did succeed in ratifying the North American Free Trade Agreement and completing the Uruguay Round negotiations. He is right now to insist that the Senate should stay in session until the round is ratified.

Time has run short, partly because Mr Clinton delayed too long in trying to gain acceptance of a new "fast track" negotiating authority that covered labour standards and the environment. By introducing the bill only last Tuesday, the president gave the initiative to the protectionist chairman of the Senate commerce committee, Ernest Hollings, who has the power to hold hearings for 45 days. That would take the vote beyond the planned date of adjournment, next week.

Mr Clinton is asking the Senate to return after a recess for the congressional elections. There should then be enough time to complete ratification before the newly elected Senate replaces the present one next year. Otherwise, the bill would lapse and might prove difficult to revive.

The issue must be understood. It is not whether Mr Clinton, the Democrats or the Republicans "win". It is whether the US will take a big step in the direction it has pursued for half a century, or turn its back on its achievements and the world's hopes.

Italy's fight

Italy's fiscal policymakers appear to have pulled off another high-wire escape act. In reality, however, the performance has only just begun. The government of Mr Silvio Berlusconi this week agreed spending cuts and revenue increases intended to keep next year's budget deficit to 8 per cent of gross domestic product.

The measures fall short of a totally convincing demonstration of Italy's will to put its finances in order. Yet by starting a reform of the country's over-generous health and pensions systems, the Berlusconi government is at last showing signs of the resolve necessary to tackle its most intractable fiscal problems. Mr Berlusconi now has to maintain that effort without provoking further strains on the international financial markets or political and social disruption at home.

The fractious Rome coalition has shown unusual unity in reaching a budget accord closely in line with advice from the Italian Treasury. However, the risks have been underlined by the trade unions' call for a one-day general strike next month against cuts in pension entitlements. Unions' quiescence on wages in the past two years has contributed to Italy's much-improved competitiveness. If they now make a determined effort to scupper the pensions reform, the coalition's mettle will be sorely tested.

An additional cause for anxiety is that some official assumptions behind the budgetary arithmetic look optimistic. This year's 3 percentage point rise in real interest rates on Italian bonds, now yielding roughly 8 per cent over the inflation rate, reflects investors' nervousness about the high level of Italian debt as well as scepticism about repeated official promises to bring it under control.

Italian bond-holders may shudder to recall that only two years ago, when Italy left the European exchange rate mechanism, the previous Ciampi government presented a medium-term plan to reduce the deficit to 4.7 per cent of GDP by 1995. If long-term Italian interest rates stay at the level to which they have risen since the summer, high debt service costs will cast doubt on the government's ability to meet next year's much less ambitious deficit target.

Mr Berlusconi owed his March election victory to broad agreement in Italy that the country needed a radical break with past political and economic practices. But the advantage he enjoyed in appearing to offer a fresh start has withered during a summer of inaction, while the danger of a financial crisis has grown.

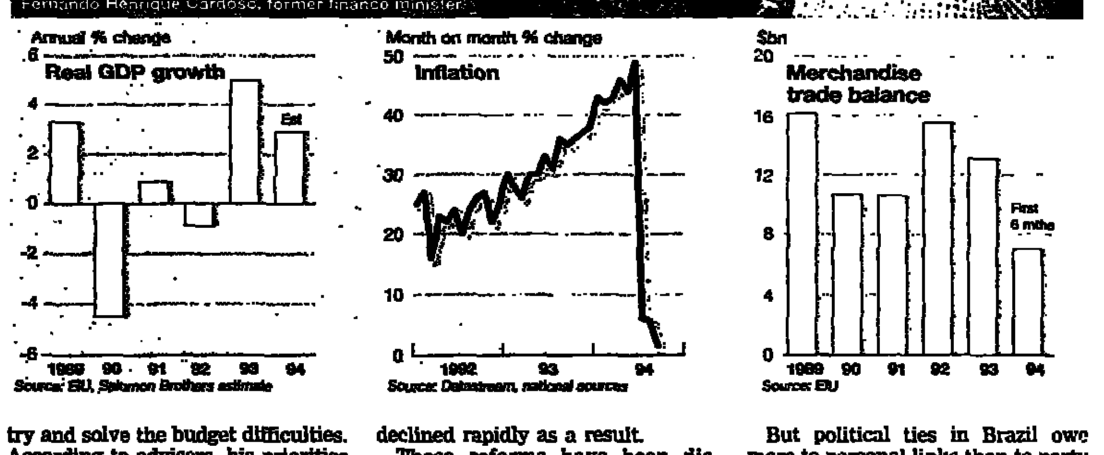
In truth, the Berlusconi government has no option but to tackle fiscal reform – not piecemeal but root and branch. In spite of a level of taxation already well above the OECD average, Italy cannot escape further cuts in government spending and benefits, as well as a significant increase in tax revenues – from improved collection or higher taxes. The recent experience of Ireland or even the UK shows that it is not impossible to achieve a substantial adjustment to a country's fiscal position in a relatively short time.

Mr Berlusconi's task is first to convince the electorate that such adjustment is necessary, and then to carry it out in a manner that spreads the pain as equitably as possible. He has taken the first steps in what will be a long and difficult journey. In the meantime, the 4 percentage point differential between yields on lira and D-Mark bonds underlines the gap between the scale of the challenge and the government's perceived ability to master it. Having decided to proceed with the budget, the prime minister must move quickly to bridge that gap.

Brazil's rosy economic outlook is likely to carry Fernando Cardoso to victory in Monday's election, says **Angus Foster**

Poised for the political pay-off

Fernando Henrique Cardoso, former finance minister



Source: EIU, Salomon Brothers estimate
Source: Datastream, national sources
Source: EIU

Brazilians vote for a new president on Monday hoping that nearly a decade of high inflation and bad government is over and a new cycle of economic growth can begin.

Mr Fernando Henrique Cardoso, the former academic turned social democratic politician, is now clear favourite to win the election. If he succeeds, his popularity and the improving health of the economy will put him in a strong position to modernise Brazil's economy and political system.

"He could change the country completely and we would go back to growing at 7 per cent a year," according to Mr Fernando de Hollanda Barbosa, a Rio de Janeiro-based economist.

Optimism about the country's outlook has been spreading since the introduction in July of a new currency, the Real, which led to a fall in the inflation rate from 50 per cent in June to less than 2 per cent this month. The Real's success ignited the election campaign of Mr Cardoso who, as finance minister, planned the currency before resigning to run for president.

Brazil has seen false dawns before, most recently when optimism following the 1989 election of former president Fernando Collor turned to despair after he resigned amid corruption charges.

And the country's social problems, including one of the biggest gaps between rich and poor in the world, will require more than one successful presidential term to solve. So Mr Cardoso's advisers are anxious that their candidate should win a victory in the first round of voting to give him the "flying start" needed to allow him to force urgent measures through Congress during the first three months of his presidency.

In order to win on Monday, Mr Cardoso needs to poll more votes than all his competitors combined. He looks likely to do so. If not, the top two candidates contest a run-off in November. Opinion polls suggest Mr Cardoso has about 44 per cent support, well ahead of his nearest rival, the leftwinger Mr Luiz Inácio Lula da Silva who has about 22 per cent. If Mr da Silva can force a run-off, polls suggest Mr Cardoso would win easily.

The measures at the top of Mr Cardoso's priority list are those needed to consolidate the Real and keep inflation low. The new currency succeeded in reducing inflation partly because the government managed to keep this year's budget balanced. However, this was achieved only by emergency spending cuts and higher than expected tax revenues. Budget problems are set to return and worsen next year.

Mr Cardoso is therefore likely to call for a sweeping fiscal reform to try and solve the budget difficulties. According to advisers, his priorities will be to increase the overall tax burden from the present level of 25 per cent of gross domestic product. He also wants to reduce constitutionally imposed transfers which force the federal government to give more than 70 per cent of its revenues to the states and municipalities. Increasing tax revenues will be difficult because many Brazilians have become adept at evading tax. Persuading state governments to cut spending targets will also be tricky, especially since several state governors, who also face elections on Monday, are likely to be opponents of Mr Cardoso.

Urgent reform is also needed for Brazil's social security system, the bill for which has risen from $7.8bn in 1988 to $24bn this year, partly because of generous retirement provisions. The government has paid the bill by transferring money from the health service, which has declined rapidly as a result.

These reforms have been discussed for some time, and were meant to have been agreed during a recent constitutional revision in Congress. But the process failed because Congressmen were not prepared to support unpopular measures such as cutting social spending in an election year.

Mr Cardoso has a better chance of pushing changes through the new Congress, which will not face the same election pressures for another four years.

In Congress he is supported by his small Social Democratic party (PSDB), the larger, rightwing Liberal Front (PFL), as well as several smaller parties. According to Mr Paulo Calmon, a political consultant, this should give him a majority in Congress with about 60 per cent support. He is also likely to be supported by the governors from some of Brazil's most important states, including São Paulo.

But political ties in Brazil owe more to personal links than to party allegiance, and this could lead to problems for Mr Cardoso.

The alliance between the PSDB and the PFL, for example, was a reaction to the threat of the leftwing Mr da Silva. The two parties share little common ideology.

Many PFL members worked with Brazil's military governments which ruled between 1964 and 1985, leaving their democratic credentials in doubt. Others are linked with the nepotism and corruption common in Brazil's backward north-east.

Mr Cardoso and other PSDB leaders, meanwhile, campaigned against the military and corruption and come from the country's south.

Mr Cardoso's advisers say the alliance agrees on the main task for his presidency: the reform of the Brazilian state. Brazil's state-led development model, which was responsible for what its supporters call the "economic miracle" of high growth in the 1970s, has since suffered from years of bad management while inflation almost bankrupted the government. "We need a new model of development with social justice," Mr Cardoso says.

His comments on social justice are welcomed by most analysts, especially since social divisions have worsened with Brazil's economic problems. The richest 1 per cent now earn more than the poorest 50 per cent. Years of inflation and spending cuts led to under-investment in education and health-care which will take time and money to redress.

Mr Cardoso's opponents say his plans to reduce the size of the state are worrying. They say that the state provides crucial support for many poorer people in Brazil, where 30 per cent of workers earn less than $70 a month. "Any attempt to reduce government costs will certainly worsen social problems and hurt millions of people," says to Mr Antonio Corrêa do Prado, a São Paulo-based economist.

Mr Cardoso says he wants better, rather than less, government spending and that total government investment in his four-year term would reach $100bn. About half this total is expected to come from foreign investment and the private sector – the latter including $15bn from privatisation, more than double the amount raised in the last four years.

If inflation remains low, foreign investors' interest in Brazil could grow. Enthusiasm about Mr Cardoso's election chances has already led to record inflows of foreign capital. Last month there was a net inflow of $1.51bn. Most went into the stock exchange, which has risen 45 per cent since the Real's launch.

Direct investment has also grown, although less rapidly. Investors are attracted by Brazil's market of 157m people and its private sector, which analysts agree is Latin America's most dynamic. Companies have restructured since 1990 as import protections fell and exports rose 24 per cent between 1990 and 1993 to reach $38.8bn. São Paulo state now exports more than Argentina.

This growing economic strength, and the success so far of the Real, could give Mr Cardoso the best chance for many years to attack Brazil's problems. But progress will be slow because of the scale of what remains to be done, and the fact that reforms were neglected when inflation was high.

"You cannot expect to solve Brazil's problems with a few miracle measures in the first few months of a presidency," Mr Cardoso says. "But we do now have the conditions to confront our problems and resume economic growth."

Robert Rice explains the power the shadowy body of the European Court has over businesses

Cost of ignorance

Europe's employers face costs of billions of pounds in extending pension rights to part-time workers, after rulings this week by the European Court of Justice on sex discrimination in pensions.

They have reacted with particular anger to the ruling that part-timers could claim pensions retrospectively if they had been excluded from company schemes after a 1976 judgment by the same court.

To many businesses, Wednesday's judgment giving part-time workers pension rights stretching back 18 years seems neither fair nor reasonable.

The court's answer was that it had been clear since 1976 that the equal treatment rules of the Rome treaty have direct effect and that they cover the right to join occupational pension schemes. If employers had bothered to examine the case law, they would have known the court was going to reach that decision.

Mr David Vaughan QC, a European law expert, agrees: "No one who had been following developments could have been very surprised. Companies must have known this was on the way. If they had asked, they would have been told. But they didn't. They hoped it would go away."

There remains widespread ignorance about the power of European institutions over national laws. Most Europeans know and accept that Brussels makes rules and regulations which as citizens of the European Union they are bound by. What they know much less about is the role that the European Court of Justice plays in shaping those rules and regulations.

The court is one of the four institutions of the EU – the others are the European Commission, the Council of Ministers and the European Parliament. The court interprets the growing body of laws governing the EU and the wider European marketplace.

It ensures the even-handed implementation of Brussels legislation by the member states of the Union. It also acts as a check on the growing power of Brussels on behalf of the member states, individuals and companies. And the court goads the Commission and Council into action where they have neglected their obligations under the Treaty of Rome.

Its role is central, yet it remains for the most part in the shadows. As a result, it is regularly confused with the European Court of Human Rights in Strasbourg, which is responsible for enforcing the European Convention on Human Rights. It is the ECHR, for example, which will decide whether Mr Ernest Saunders, the former Guinness chairman, was denied a fair trial in 1989.

The court's judges are drawn from the judiciaries and legal professions of the member states. They are 13 in number, assisted by six advocates general who act as advisers.

There is no nationality requirement, but at present the court has one judge from each member state. They are appointed by "common accord" of the governments of member states – in effect, they are nominated by their own administrations. Their appointment is for a renewable term of six years. Every three years there is a partial replacement of the court, with seven and six judges replaced alternately.

Although the judges are effectively political nominees, they are constitutionally independent.

"The critical thing is that they aren't accountable," says Mr Vaughan. "If they were, they would always be at the beck and call of their governments."

He accepts that in the past some judges have modified their behaviour when their time for reappointment drew close. But in general the court has stood up well to pressure and abuse from governments when it has done things they did not like, Mr Vaughan says.

To offer the judges additional protection from political interference, the court's deliberations are kept secret and all its judgments are unanimous. Dissenting judgments are not allowed. "That's why some judgments look like a fudge," says European barrister Mr Fergus Randolph. "They are a fudge."

Lord Slynn, a Law Lord and former British judge at the court, is in favour of introducing some way of enabling judges to register dissent so that the differing views can be properly reflected. He believes this would aid understanding of the European legal process.

But others are against this, believing that it would increase political pressure on the judges. "The British government would probably be tolerant if its judges kept voting against it, but I'm not sure all the other countries would," says Mr Vaughan.

If member states feel that the court has gone badly wrong on an issue, they can – as a last resort – refer the judgment to the next intergovernmental conference when the Rome treaty is revised. This happened at Maastricht where a protocol was added to the treaty limiting the effect of the 1990 Barber judgment on equal pensions to rights accrued after the May 1990 date of the ruling.

However, the issue of retrospective pension rights for part-time workers is unlikely to feature at the next intergovernmental conference in 1996. Given the history of court judgments on equal treatment since 1976, there is unlikely to be political support for reopening the issue.

OBSERVER

Manek's City challenge

■ Forget Lenny Licht, the former Mercury Asset Management investment star who was lured away to Jupiter Tyndall with a £1m-plus golden hello. Wembley's Jayesh Manek, 38, who runs a small chain of chemists shops and dabbles in the stock market, sounds as if he could slaughter go-go fund managers like Licht at their own game.

People in the City are starting to talk about Manek, a 38-year-old Ugandan Asian, because he keeps on winning the Sunday Times' weekly Fantasy Fund Manager competition.

True it's only a game and since Manek's money is not on the line he can afford to take much bigger risks than any normal fund manager. Even so the consistency of his winning and the size of his gains is starting to be noticed.

Since the competition started at the end of May the FT-SE 100 has risen by less than 30 points yet Manek's JP Growth fund has grown from £10m to £92.6m. More than 40,000 people are playing the game, yet 10 of Manek's funds appear in the top 50 performers. He has been helped by picking small highly-speculative stocks such as Middlesex Holdings, United Breweries and Anglo United. However, he is not playing the options markets.

Manek spends three to four hours a week plotting his investment strategy. His one luxury is a computer technical analysis programme but he gets most of his information from the Financial Times and the Investors Chronicle.

He has not yet had a City headhunter knocking on his door. But if his winning streak continues much longer, he may well get an offer he might find hard to refuse.

The laughing bank

■ Good for Crédit Lyonnais, which has not forgotten how to have a giggle even after being forced to unveil losses of FFr4.5bn for the first half of 1994. It has been placing full-page advertisements in the French press this week under the banner: "Here are the bad results that everyone was waiting for."

Which British bank would have the chutzpah to conceive of any such thing? Then again no British bank is underwritten by the state, thankfully.

Pique in Greek

■ Two consortia bid to build an underground railway in Thessaloniki in northern Greece. One is Greek-led, the other a Franco-Canadian combine. So which does the government back? Well, it's not the home team.

Despite the fact that Macedonian Metro – led by the country's biggest construction company Mechaniki – came up with the lower bid of Dr120bn ($500m), it now seems to be out of the running. The committee set up by the public works ministry to evaluate the project did not bother to meet the consortium partners and simply rejected their financing arrangements as "insecure."

'This is the life'

This prompted an apopletic Prodromos Emfietzoglou, Mechaniki's founder chairman, to attack the government. He has been waving around copies of letters from the European Investment Bank offering to finance half the cost of the project, another from Germany's state-owned development aid bank Kreditanstalt für Wiederaufbau (KFW) for another 40 per cent, and a third from Citibank and others offering a further 15 per cent.

To add insult to injury, Emfietzoglou knows the committee's chairman Kyriakos Anastasiades – they were classmates at engineering school. Their paths have subsequently diverged, however. The former has risen to the very top of Mechaniki, while Anastasiades remains a poorly paid professor of civil engineering at the country's Thessaloniki University.

Tut tut. Not a touch of professional jealousy, surely?

Goodbye Fimbra

■ Poor old Fimbra. The self-regulatory body for financial intermediaries is just about to close for new business, yet people are still making fun of its initials: "Flip it, my broker's run away."

Modesty Lara

■ Can anyone really believe themselves a failure after knocking up 2,066 runs in an English county cricket season?

But Brian Lara reckons he let down his county club, Warwickshire, at certain crucial moments. In his latest newspaper column in his native Trinidad and Tobago, he singles out his score of 81 runs – a good one-day knock by anyone's standards – in the Natwest one-day final, which Worcestershire went on to win. Warwickshire, already having won the County Championship, and the Benson and Hedges Cup were thus prevented from cleaning up all the major titles.

"People praised my innings and said it was my biggest one-day score, but I felt guilty that I got out at the wrong time," says Lara.

However, one man who is happy that Lara got out when he did is Richard Flavell, a director of Lombard Risk Systems. Flavell, a maths wizard, came closest to guessing the difference between the number of first-class runs scored by Lara and the Footsie close on Monday September 19 – the final day of the English cricket season. Although Lara has nearly doubled his runs since the contest started in June and the index has only added 79 points, the Gifted One was still trailing by 1,013 points when the game ended.

A Methuselah of Veuve Cliquot – courtesy of Simon Rostron, the City PR man who suggested the challenge – will be on its way shortly.

You only dial once

■ The late Harry Saltzman, co-producer of the best of the James Bond movies, might have been amused to learn that the new international dialing code for Russia is 007....

FINANCIAL TIMES
Friday September 30 1994

UN to retain veto over any tougher action

Nato pledges to improve use of airpower in Bosnia

By Bruce Clark in Seville

Nato defence ministers pledged yesterday to make the use of alliance airpower in the skies over Bosnia more effective. But they also agreed, at the insistence of Nato's European members, that the United Nations must retain its veto over any hardening of tactics by the Atlantic alliance.

An informal meeting of Nato defence ministers, attended for the first time since 1966 by France, heard calls from Mr William Perry, the US defence secretary, for much tougher action against the Bosnian Serbs.

He told his colleagues that Nato's political credibility had been damaged by the fact that in an air raid near Sarajevo last week five aircraft were apparently needed to destroy one tank.

In a spirited exchange, the European allies agreed that there was room for some stiffening of Nato's stance but they insisted that British and French generals on the ground should retain the last word.

Mr François Leotard, the French defence minister, said the use of airpower so far had been more symbolic than substantial and said Nato could "go a bit further". He called for a more vigorous response to "unacceptable behaviour" such as firing on UN aid convoys or relief flights.

Apart from intensified use of airpower, there was room for the UN to adopt tougher procedures on the ground such as opening fire when humanitarian convoys are attacked, he said.

Yesterday's meeting took place in the shadow of widespread complaints from supporters of the Bosnian government that Nato's air raids so far have been little more than pinpricks.

Mr Malcolm Rifkind, the UK defence minister, insisted strongly on the need for the UN to be involved in the process of defining what a "robust response" to provocations in Sarajevo would mean in practice.

But he acknowledged the force of US complaints about damage to Nato's credibility. "If you use airpower at all, it has to be effective," he said.

● Senior officials in Russia's arms exporting enterprise have criticised the US for "discrediting" Russian weapons in international arms markets and forecast a continuing rise in arms sales. At the same time, a foreign ministry official told the news agency Interfax that there was "no reason to break military relations with Iran", writes John Lloyd in Moscow.

The comments came as Russian president Boris Yeltsin, at the end of his visit to Washington, disagreed with US president Bill Clinton over arms sales to Iran. Mr Clinton attempted to persuade the Russian leader to stop arms deliveries to a country the US sees as a supporter of terrorism, but Mr Yeltsin made no commitment.

Mr Valery Tretyak, deputy director of the state arms company Rosvooruzhenie, said he estimated arms sales abroad this year to rise to $4bn from last year's level of $2.2bn – and to rise to $5bn-$6bn in 1995.

Eurocopter and Mil may build large civil helicopter

By David Buchan in Paris and Bernard Gray in London

Eurocopter, the Franco-German maker of helicopters, has created a joint venture with Mil, the Russian aircraft design bureau, to study the development of a large civil helicopter capable of carrying 30 passengers.

The deal is a significant advance in co-operation between western aerospace companies and manufacturers in the former Soviet Union and breaks ground in technical co-operation between old adversaries.

Mil, which also produces military helicopters, designed the heavily armed Red Army gunships which would have fought Nato in a European war. Similarly, Eurocopter is designing the Tiger anti-tank attack helicopter which should be deployed with Nato forces by the year 2000.

Initially the venture will produce a relatively inexpensive feasibility study but investment of up to $1bn could be required if the helicopter is put into design and production.

Under the terms of the agreement, Eurocopter would provide the avionics, cockpit and cabin layout with Mil controlling the overall design.

The engines for the heavy-lift helicopter will be produced by the Kazan-based Klimov company. The agreement marries advanced western electronics capabilities to the lower cost design and production facilities available in Russia.

If it is built, the 14-tonne helicopter could challenge the Anglo-Italian EH101 in the large passenger transport sector of the market in 10 years. Sikorsky of the US is also considering production of a large transport helicopter.

Most helicopters of this type are produced for military purposes, and the civilian market has been limited to specialist applications such as transporting oil workers to offshore rigs. However, Westland, manufacturer of the EH101 with Augusta of Italy, is confident there is a civilian market for large helicopters.

Eurocopter, itself a joint company between Aérospatiale of France and Deutsche Aerospace, was aware of Mil's intention to build a heavy passenger helicopter, and realised it could have a market in the west. Eurocopter will be responsible for all sales outside Russia.

THE LEX COLUMN

Promise in the pipeline

British Gas mouthed all the right words at its strategy presentation yesterday. After years of moaning that unfair treatment by its regulator was undermining its business, Gas set out a plan to increase earnings and cash flow. Mr Cedric Brown, chief executive, said the group was at the start of a "complete and radical transformation". He also promised an "aggressive" dividend policy, reversing earlier threats to cut the pay-out.

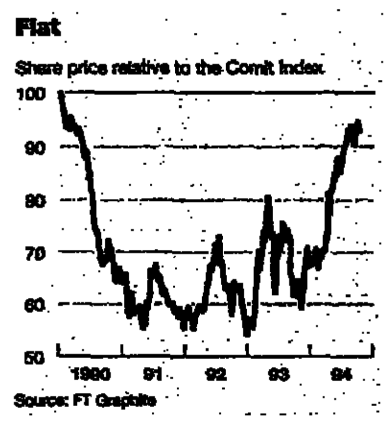
Nevertheless, Gas's shares fell by over 3 per cent. Investors appear to like the change in language but are waiting to see whether Gas can deliver the goods. There can be no guarantee. Gas is looking to exploration in the UK continental shelf and overseas investments as the source of profits growth. But it has yet to prove it has the skills to succeed in these markets. The group's exploration and development costs of £5 per barrel of oil equivalent are higher than those of world leaders.

There are also doubts over what Gas brings to overseas investments. The group claims its competitive advantage comes from experience in all parts of the gas chain – from the "drill bit right the way through to the burner tip". But one wonders how well managers who have grown up in a monopoly culture will cope in free-wheeling third world markets. Mr Richard Giordano, Gas's relatively new chairman, was candid enough to admit that "our commercial skills are limited" and promised to recruit two new executive directors from outside the group. Investing in Gas is now largely a bet on how successful he will be in changing its culture.

FT-SE Index: 2992.5 (-46.2)

Fiat

Share price relative to the Comit Index



Source: FT Graphite

Redland

Strong growth in the UK, France and Germany prompted the City to raise its profit estimates for Redland yesterday. But the shares still fell 5 per cent on the group's disclosure that its tax rate is set to rise towards 35 per cent next year, after 30.5 per cent in 1993. The full upturn in pre-tax profits will thus not feed through to earnings.

There are good explanations why Redland's tax charge should be rising sharply when that of RMC, which also derives the largest share of its profits from Germany, is not. One is that Redland's investment programme in the east of Germany is coming to an end, and capital allowances are petering out as a result. But the surprise nevertheless rekindles scepticism about Redland's dividends policy. The tax bill would not be so high now if the group had not maintained a barely covered dividend throughout the trough of the UK recession. Coupled with the near doubling of shares in issue over the past three years, this policy has increased the burden of unrelieved Advance Corporation Tax.

Ironically, this makes it impossible for Redland to raise its dividend now, when the underlying operating performance might justify it. While a yield of over 6 per cent offers some support, the contrast with RMC is stark. This more conservatively managed company increased its interim dividend by 6.1 per cent last week. Redland will not easily correct its under-performance of more than a fifth against RMC in the past year.

Forte

At last life is starting to look up for Forte. It has clinched the deal to buy Meridien from Air France and seen new management installed at the Savoy. Room rates are finally rising at its London hotels. Group first-half profits are up more than 62 per cent. Disposals have helped reduce gearing to 44 per cent, giving Forte flexibility in deciding how to finance its Meridien purchase. With such a long list of achievements, it is curious that Forte's dividend is unchanged.

Perhaps the company does not want to get too carried away with its own recovery story. Competitive pressure remains strong in the UK provinces where higher occupancy has been bought at the expense of lower room rates. That will be slow to improve given surplus capacity in the market. Even the high returns from the expanding Travelodge chain are unlikely to last for ever as other operators flood the market.

But the broader reason for caution is that cash flow is not rising in line with profits. First-half free cash flow of £31m looks unsatisfactory in the context of an annual dividend cost of £64m. Part of the reason is that Forte is still weighed down by its debts. Interest cover, though rising, is only 2.4 times even without counting off-balance sheet lease charges. Now the recession is over, Forte is also stepping up its refurbishment spending. It seems hotels eat up cash as soon as it flows in. Sceptics always wondered where Forte's cash would come from after it sold its contract catering businesses. It has yet to prove their concern unfounded.

Fiat

Fiat's management should be congratulated for extricating the company so rapidly from the most wretched period in its history. The battered car maker is back in the black far quicker than expected, partly because of the market, but in no small measure, thanks to timely self-help. The lira's devaluation also assisted, aiding exports and making competitors' products more expensive in Italy. The Brazilian experience also augurs well for international sales. The 34 per cent fall in net debt was a pleasant surprise. A further recovery can be expected when the Italian market, representing more than 40 per cent of automotive sales, finally recovers.

The management's determined cost cutting has been particularly impressive. In only 12 months, overheads as a percentage of sales have been slashed 2.8 percentage points to 13.6 per cent. Production costs have also been sharply reduced. A new engine plant, and two new assembly plants in southern Italy where Fiat can take advantage of lower wage costs, are both making their mark.

Such rationalisation was necessary for Fiat's survival, but the group's success is by no means assured. Fiat must continue to prepare for 1999 when the Japanese will enter the Italian market without hindrance. Everything will depend on the group's new products, an area in which Fiat lacks credibility. The recently-launched Punto may have been a hit, but the jury is out on other models. Fiat cannot afford another $32bn of rationalisation and investment. This is an all or nothing throw of the dice.

Congress may hold special session for trade agreement

By Nancy Dunne in Washington

Senator George Mitchell, the Democratic majority leader in the US Senate, yesterday said he would hold a rare post-election session of the US Congress in order to win US ratification of the Uruguay Round trade legislation by the end of this year.

Senator Ernest Hollings, chairman of the Senate Commerce Committee, yesterday showed no sign of backing down from his intention to delay the legislation for 45 working days by holding "a nationwide debate" over US trade policy. This would keep the General Agreement on Tariffs and Trade legislation off the Senate floor until after the election on November 8.

A Senate aide said: "If Hollings does not back down, we will have a lame duck session. Gatt is not crucial to the elections, but it happens to be crucial to the country."

Mr Peter Sutherland, the Gatt chief who is lobbying for quick ratification of the deal, yesterday renewed calls for big economic powers to exercise a moral obligation and ratify the new world trade treaty. He said the threat to frustrate approval in the US Congress could not be afforded.

Senator Hollings, a long-time supporter of the textile industry, can delay Senate action under "fast track" rules, which require a yes or no vote on legislation implementing trade deals. Chairmen with committees that have jurisdiction over the legislation have 45 days to hold hearings.

Democrat attack ......Page 5
Editorial Comment Page 15

The American Textile Manufacturers Institute yesterday said it was surprised by the senator's move to delay the vote. "This legislation includes some vitally important provisions for the US textile industry," it said in a statement. "We support these provisions enthusiastically."

It said the damage done to textile producers by phasing out of quotas would be offset by a rule of origin that prevents countries from circumventing quota limits.

With healthcare, foreign policy and partisan attack, President Clinton has had little chance to promote the the trade pact. During the formal end of summit press conference with Russian leader Boris Yeltsin, he urged approval of the Gatt agreement.

"This is the biggest trade agreement in history," he said. "It will give us 300,000 to 500,000 new high wage jobs in the next few years."

The foes of the Gatt deal have taken up Senator Hollings as a hero. "We're impressed with Senator Hollings' courage on this issue," said Mr Andrew Wheat, spokesman for the Gatt Project. Ms Caroline Kazdin, legislative director of the Amalgamated Clothing and Textile Workers Union, said the senator is doing the country "a big service by bringing the substance of this thing to the public eye."

Polls show most voters know nothing about the Gatt deal, but when it is explained to them, they oppose it, she said.

Disney loses battle for civil war theme park

Continued from Page 1

The 3,000-acre Virginia project its and related development, which included 2,300 houses, 1,300 hotel rooms and 1.9m square feet of retail space, would have created 3,000 new jobs and an extra $12m in county tax revenues, according to the company.

Governor Allen backed it for its economic benefits, and Prince William County gave its provisional zoning approval, subject to environmental clearance by the federal government. US Talk shows and political commentaries saw the Disney park in growth-versus-environment and populist-versus-elite terms.

The Disney plan ran into a hail of criticism from environmentalists and the local "horse country" set afraid that countryside would be ruined.

And some ofthe finest chroniclers of America's past lined up to condemn what they feared would be the sanitisation of history by Disney, rendered all the more unacceptable by its location on top of beautifully preserved civil war battlefields like Manassas and with the great historical museums of Washington barelyan hour's drive away.

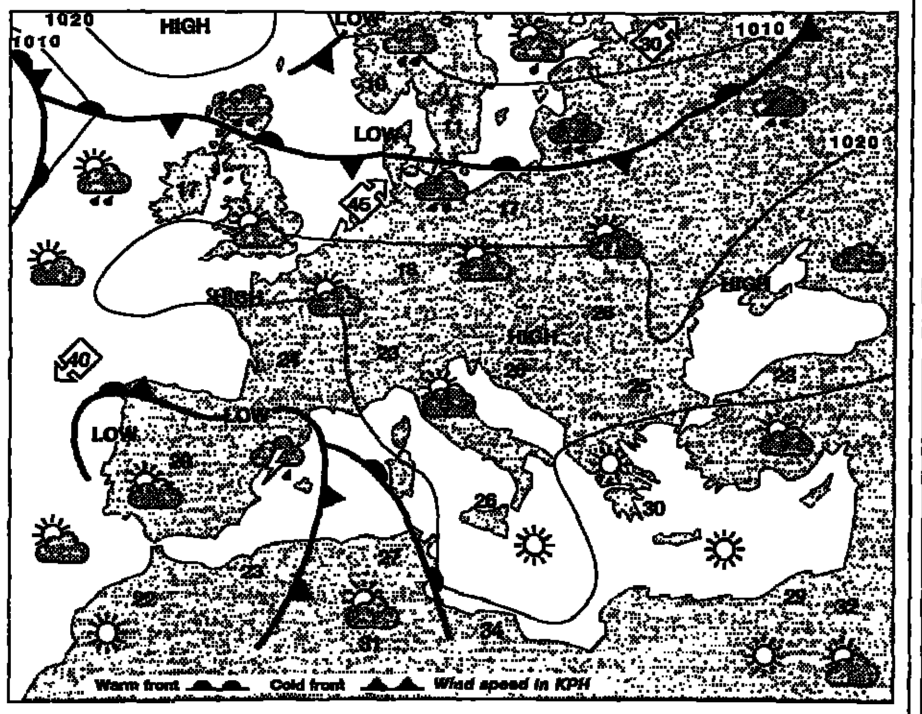
FT WEATHER GUIDE

Europe today

Scandinavia will be abnormally cold with snow, sleet and rain in Lapland and northern Norway. Temperatures will barely rise above freezing over higher ground. Scattered showers will linger over Finland and north-west Russia. Recurrent rain will cover Scotland and southern Scandinavia. High pressure from the Channel to the Ukraine will promote light winds and pleasant conditions from northern France to central Europe. Eastern Spain, southern France and northern Algeria will have showers. Strong thunder showers may erupt in the warm, humid air. Italy, the Balkans, Greece and Turkey will be settled and warm.

Five-day forecast

Cold arctic air will spread south across Scandinavia and the Norwegian Sea during the weekend in the wake of a developing depression over the Baltic. A wavering cold front will produce rain over the UK, northern Germany and Poland. Early next week, a secondary low pressure system over the North Sea will draw cold air across western Europe and temperatures will drop significantly throughout the region.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum		Beijing	fair	25	Caracas	fair	31	Faro	fair	22	Madrid	fair	21	Rangoon	cloudy	31
	Celsius		Belfast	rain	15	Cardiff	cloudy	17	Frankfurt	fair	20	Majorca	shower	24	Reykjavik	fair	7
Abu Dhabi	sun	37	Belgrade	fair	26	Casablanca	fair	22	Geneva	cloudy	22	Malta	fair	29	Rio	fair	24
Accra	cloudy	30	Berlin	cloudy	19	Chicago	fair	21	Gibraltar	shower	22	Manchester	cloudy	17	Rome	fair	27
Algiers	thund	27	Bermuda	fair	29	Cologne	fair	18	Glasgow	cloudy	16	Manila	hazy	30	S. Frsco	fair	24
Amsterdam	fair	18	Bogota	cloudy	19	Dakar	shower	31	Hamburg	cloudy	17	Melbourne	fair	15	Seoul	fair	24
Athens	sun	29	Bombay	fair	32	Dallas	sun	31	Helsinki	shower	11	Mexico City	fair	21	Singapore	cloudy	30
Atlanta	sun	27	Brussels	fair	18	Delhi	sun	34	Hong Kong	fair	28	Miami	thund	31	Stockholm	fair	12
B. Aires	fair	16	Budapest	fair	23	Dubai	sun	36	Honolulu	fair	32	Milan	fair	24	Strasbourg	fair	22
B.ham	cloudy	16	C.hagen	rain	13	Dublin	drzzl	17	Istanbul	shower	27	Montreal	shower	17	Sydney	fair	19
Bangkok	rain	33	Cairo	sun	32	Dubrovnik	sun	27	Jakarta	fair	32	Moscow	fair	11	Tangier	fair	23
Barcelona	thund	23	Cape Town	cloudy	18	Edinburgh	rain	16	Jersey	fair	17	Munich	fair	20	Tel Aviv	fair	31
									Karachi	sun	34	Nairobi	fair	28	Tokyo	shower	28
									Kuwait	fair	40	Naples	fair	28	Toronto	fair	18
									L. Angeles	fair	24	Nassau	shower	31	Vancouver	shower	18
									Las Palmas	sun	26	New York	fair	23	Venice	fair	23
									Lima	cloudy	22	Nice	fair	22	Vienna	fair	21
									Lisbon	shower	22	Nicosia	fair	31	Warsaw	cloudy	17
									London	fair	19	Oslo	fair	11	Washington	sun	24
									Lux.bourg	fair	18	Paris	fair	22	Wellington	fair	13
									Lyon	fair	24	Perth	fair	19	Winnipeg	fair	15
									Madeira	fair	24	Prague	fair	19	Zurich	fair	21

FINANCIAL TIMES
COMPANIES & MARKETS
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IN BRIEF

Blockbuster and Viacom to merge

Shareholders in Blockbuster, the US video retailing group, yesterday narrowly voted to merge with Viacom, the entertainment group. The deal was approved by holders of 57.7 per cent of Blockbuster's shares. Page 20

BAe in friendly takeover talks with VSEL
British Aerospace in the UK has made a friendly bid approach to VSEL, the Barrow-based maker of Trident submarines. Discussions are continuing about the terms of the deal, which would offer BAe shares in exchange for those in VSEL. Page 18

Credito Italiano shares fall 5%
Shares in Credito Italiano, the recently privatised Italian bank, fell nearly 5 per cent yesterday after it announced plans to issue new shares and warrants to raise up to L1,520bn ($975.6m) for acquisitions. Page 20

US banks 'in lending frenzy'
Mr Richard Boyle, vice-chairman of Chase Manhattan Bank warned yesterday that US banks are in a "feeding frenzy" to lend to large companies, and have started to sacrifice credit standards in exchange for short-term earnings. Page 21

Chinatrust files Taiwan's flag
There were no fire crackers at yesterday's launch of Chinatrust International Securities, the first Taiwanese investment bank to open for business in the City of London. But that there was going to be plenty of other razzmatazz was clear. Page 21

Trading reformed on Amsterdam SE
The Amsterdam Stock Exchange is scheduled to open an hour later than normal today to allow brokers, banks and jobbers to cope with wide-ranging reforms to the bourse's trading system. Page 32

Forte leaps 62% and optimistic
Forte yesterday announced interim pre-tax profits ahead 62 per cent from £37m to £60m ($94.8m) and issued its most optimistic assessment of future prospects in years. Mr Rocco Forte, the hotel and restaurant group's chairman, warned, however, that UK consumer confidence was still fragile. Page 23

Watchdog fails to join Yorkshire Water
City institutions in the UK yesterday overturned a victory by small shareholders of Yorkshire Water, who had overwhelmingly supported a proposal that Mrs Diana Scott, a former consumer watchdog, should join the board of directors. Page 24

Whitbread gets £27m for brewers shares
Whitbread, the brewing, retailing and leisure group, yesterday folded the "Whitbread umbrella", its 40-year-old portfolio of stocks in regional brewers to Lazard Brewers Investment Trust. Page 24

Australian uranium mining curbs to stay
There will be no immediate relaxation of Australia's constraints on uranium mining, and the issue has been referred to the ruling Australian Labour Party's national executive for consideration in three years' time. Page 26

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)							
Falls				Geophysique	380	+	14
Asko Prf	730	–	25	Orsan	203	+	17.9
BMW	752	–	23	SLIC	730	+	20
DEHE	514	–	18	**Falls**			
Herlitz	330	–	12	Alcatel	488.7	–	78.3
Porsche	648	–	21	Fonc Lyon	650	–	30
Siemens	632.3	–	22.2	**TOKYO (Yen)**			
NEW YORK ($)				**Rises**			
Rises				Dai Tokyo	749	+	28
Goodyear	33¾	+	¾	Fuji Fire	679	+	24
Lotus Dev	36⅛	+	1⅛	Marubeni	551	+	17
Falls				Minebea	840	+	19
Alcatel	18⅝	–	1⅛	Mig Sutsen	475	+	16
Compaq	31¼	–	1	**Falls**			
Cyrix	43	–	1¾	Seibu Rail	4000	–	100
Storage Tec	29½	–	2⅛				
PARIS (FFr)							
Rises							
Ecco	808	+	27				
London (Pence) at 12.30pm.							
Rises				Platignum	11½	–	6
Body Shop Intl	225½	+	7½	Reckitt Colman	533	–	21
Hunters Armley	166	+	11	Redland	493	–	29
Regent Inns	272	+	8	Scottish Hydro	327	–	45
Speciality Shops	113	+	6	Scottish Power	348	–	31
Tadpole Tech	379	+	10	Smith New Court	377	–	10
VSEL	1228	+	255	Tarmac	128	–	7
Vosper Th'croft	720	+	23	Thorpe (FW)	217	–	8
Falls				Tibbett Britten	713	–	37
Blockleys	63	–	8	Warburg (SG)	681	–	19½
Brit Aerospace	449	–	15	Waterford Fds A	80	–	5
British Airways	344	–	16	Wellcome	644	–	15
British Gas	290	–	9½				
Greenalls	413	–	11				

Fiat returns to profit but still cautious

By Andrew Hill in Milan

Fiat, the Italian industrial and automotive group, yesterday said it had put last year's heavy losses behind it, and announced a return to profit of L727bn ($467m) before tax in the first half of 1994.

The company confirmed it was on course for a full-year net profit, bouncing back from the record loss of L1,783bn in 1993, and that 1994 sales should rise to L63,000bn, up 15 per cent on 1993. Fiat's share price has risen strongly in recent weeks, and the results were in line with most analysts' expectations.

The company said it would continue to improve efficiency and develop new products "with unvaried determination", but sounded a note of caution about the depth of the recovery, particularly in the "very weak" Italian car market, which accounts for 40 per cent of sales made by the group's principal subsidiary, Fiat Auto.

When it released interim figures a year ago, Fiat heralded the darkest year in its 95-year history by announcing a pre-tax loss of L982bn, and a complex restructuring and capital-raising exercise.

Since then, improved trading conditions in most of Europe outside Italy, the successful launch of the group's new small car, the Fiat Punto, and continued pressure to reduce costs has helped to reverse the group's sudden slump into the red.

In the first half, Fiat's net consolidated sales rose to L31,363bn from L27,153bn, restated to account for the sale of La Rinascente, the retailer, last year.

As a proportion of turnover, the group has managed to cut overheads from 16.4 per cent in the first half of last year, to 13.6 per cent in the first six months of 1993. Net debt has been reduced to L3,447bn – 15 per cent of net equity – compared with L6,983bn on June 30, 1993, and L5,247bn at the end of last year.

Mr Giorgio Garuzzo, director-general of the group, said: "We're obviously satisfied by the results we have achieved, both because the speed of the recovery is good, and because it's better than our long-term forecasts."

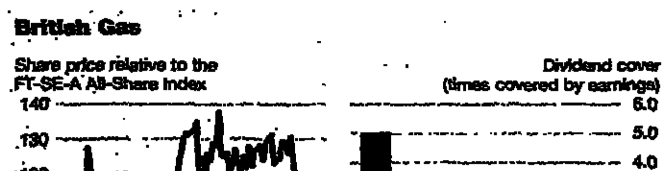
But Mr Garuzzo also warned that the market, particularly in the automotive sector, had still not entirely emerged from recession. In the first half, car deliveries in Europe rose an average of 6.6 per cent, while figures from Italian automotive associations indicate that deliveries of all makes in Italy have slipped by an average of 2.6 per cent.

Within the Italian market, however, Fiat has benefited from the continued weakness of the lira, two years after devaluation, to increase its market share 1.3 percentage points to 46 per cent, and expand export sales. The reduction in Fiat Auto's losses has also been helped by the strong growth of the group's Brazilian operations, which pushed up sales by more than 30 per cent in the first half.

Analysts expect all sectors of the group to record positive operating results in the full year, with only Fiat Auto likely to show a net loss for 1994.

Lex, Page 16

British Gas upbeat on dividend rises



Source: FT Graphite

By Robert Corzine in London

British Gas yesterday predicted that a strong underlying performance in its main UK businesses would enable it to increase future dividends. In a rare public review of the company's strategy, senior executives told analysts a progressive dividend policy could be maintained as long there were no more "regulatory shocks". Its shares, however, closed 9¼p lower yesterday at 290p.

The upbeat assessment of financial prospects contrasted sharply with two dividend warnings issued earlier this year. Analysts said those warnings were part of the company's negotiating tactics with the UK government and Ofgas, its regulator, over the planned liberalisation of the domestic gas market beginning in 1996.

Mr Richard Giordano, chairman, said the "dense regulatory fog" which had enveloped the company and resulted in a "strategic paralysis" was beginning to lift. The short-term financial performance would be underpinned by expected improvements in the UK gas business, where £600m ($948m) of costs would be removed by 1998 through a radical restructuring in which 25,000 jobs would go.

The reforms were running ahead of schedule, according to Mr Cedric Brown, chief executive, who emphasised there were no "sacred cows" within British Gas, and that business units which failed to return adequate shareholder value could be sold. A sharp rise in gas production from existing offshore reserves in the UK would account for most of the expected growth of cash flow to the year 2000, he said.

UK businesses were also expected to receive the lion's share of £10bn of capital expenditure planned over the next five years. TransCo, the gas transportation and storage business, will absorb 35 to 40 per cent of the total, while the UK exploration and production business would receive about 25 per cent.

But the maturity of the UK continental shelf and the domestic gas market meant that long-term earnings growth would have to come from international ventures. These would account for 25-30 per cent of capital spending to 1999,but they would remain cash negative until the next decade.

Mr Brown said the strategy would be focused on regions where there was growing demand for gas, such as Latin America, Southeast Asia and Europe. It would also be "market driven," and would involve British Gas's forming associate companies with strong local partners.

That change was one of the main reasons for the announcement yesterday that British Gas was replacing its earnings-based dividend policy with one based on cash flows. Profits from associated companies are likely to reinvested, rather than returned in dividends. "To take full credit for those profits in setting financial policy seems imprudent", said according to Mr Philip Rogerson, finance director. The new system would ensure that only cash receipts are taken into account.

Lex, Page 16

BA hit as USAir defers preference share dividend

By Tony Jackson in New York and Paul Betts in London

The financial troubles of USAir, the loss-making US airline in which British Airways owns a 24.6 per cent stake, deepened yesterday with the announcement that it will pass its quarterly dividend on its series A preference stock.

The decision would cost BA about $25m if payments were passed for the full year.

The move sent BA shares tumbling in London yesterday with the shares losing 16p – or more than 4 per cent – to close at 343p. BA shares have fallen by just over 6 per cent during the last two days.

The announcement prompted fears that BA would carry out its threat to write-off all or part of its $400.7m investment in the troubled US carrier, which earlier this month suffered its fifth fatal accident in five years with the crash of a passenger airliner outside Pittsburgh, killing 132.

But BA remains confident its partnership with USAir will still achieve £70m ($107m) of gains this year from added revenues and savings from its combined operations with the US carrier. BA said it had already received half this year's $35m of dividends due on its preferred shares.

However, Mr Chris Avery, the London-based aviation analyst at Paribas, said that the announcement "is more evidence of the very deep difficulties facing USAir". An increasing number of City analysts expect the US carrier to be eventually forced to file for US Chapter 11 bankruptcy protection, although it is not facing an immediate liquidity crisis.

Yesterday's decision is also seen as a signal of USAir's willingness to share sacrifices with its unions, from which it is seeking heavy wage concessions. USAir's shares dropped $⅞ to $4⅛ in early trading yesterday.

The company said it would defer payment on its series A cumulative preferred stock and may do the same on $213m of series B preferred stock which is held by the public.

The decision may give BA the right to put directors on the USAir board. Berkshire Hathaway, another major stake-holder and the series B holders are entitled to add directors in the event of non-payment, in which case BA would be entitled to follow suit as a means of maintaining its presence. Berkshire Hathaway said yesterday it did not intend to put in directors "at this time".

The US credit rating agency, Standard & Poor's, yesterday lowered its rating on some US stock and bonds after the announcement saying that the dividend suspension reflected "continuing heavy losses, exacerbated by the recent crash of a Boeing 737 jet, and the need to demonstrate shared sacrifice to its unions".

For BA, the main issue remains its US partner's restructuring efforts and its negotiations with unions to achieve $1bn in annual savings. BA has made it clear it will not invest any further funds in USAir until it is satisfied the airline is on a recovery course.

● Trans World Airlines (TWA) has warned of renewed bankruptcy if its latest restructuring plan is rejected by shareholders at their meeting on November 1. TWA told shareholders, who face heavy dilution, that without the new stock it might be impossible to restructure except under bankruptcy protection.

UBS claims Ebner aims for control

By Ian Rodger in Zurich

Union Bank of Switzerland, the country's largest bank, last night said it had strong reason to believe that a concert party was being formed to acquire control of the bank on the cheap. That is why the bank earlier yesterday proposed the conversion of all its registered shares into bearer shares, thereby drastically diluting their voting power.

UBS made clear that it believed Mr Martin Ebner's BZ banking group was behind the effort to gain control. BK Vision, an investment company controlled by BZ, is UBS's largest shareholder, and has built up an 18 per cent stake in the registered shares worth about SFr1.2bn ($930m). The UBS move would considerably dilute the voting power of this class of shares.

The registered shares have a par value of SFr20. In effect, they have five times the voting power of SFr100 bearer shares.

Mr Ulrich Grete, UBS deputy chief executive, said officials of BK Vision had met bank directors recently and indicated they wanted to win enough support from shareholders to make significant alterations to the board of the directors and orient the bank's strategy to maximise return on equity.

The bank said the registered shares were created in 1975 to prevent foreign control of the bank. At the time, money from the Middle East money was pouring into Swiss securities. "It is evident that the registered shares with restricted transferability are today used by some shareholders to get an influence on UBS's strategy which is far beyond their financial involvement".

It said the spread between the recent prices of the registered shares and bearer shares had "resulted in complaints by large private and institutional investors". Mr Ebner said the UBS move to dilute registered shareholders' voting rights appeared to be a serious attack on Swiss securities law. He was confident it would not succeed. At yesterday's closing prices, the registered shares were at a 34 per cent premium to the bearer shares.

BK Vision has had several skirmishes with UBS in the past two years. Last week, the Zurich commercial court ruled in favour of a BK suit claiming that UBS had illegally violated shareholder rights by creating pools of capital that could be used at the board's discretion for acquisitions or convertible bond issues.

Earlier this year, a BK motion to the UBS AGM proposing a cut in board membership from 22 to a maximum of nine attracted some 40 per cent of the votes.

A year ago, BK complained about the bank's decision to sack Mr Christoph Blocher, a BK ally, from the board.

Two weeks ago it criticised the bank for becoming too dependent on volatile securities trading activity for its profits.

Second-guessing Metallgesellschaft's woes

Prudent banking or blind panic?

Were Metallgesellschaft's creditor banks, led by Deutsche, struck by blind panic when, at the turn of the year, they forced the liquidation of the group's US oil futures positions and effectively precipitated its near-collapse?

Is it possible, as has been suggested by professors, that the banks did not properly understand the niceties of derivatives trading and caused far heavier losses than necessary? Was the affair a costly, avoidable blunder?

Is it even possible that Deutsche deliberately turned paper or potential oil futures losses into a real deficit – regardless of cost – to seize control of Metallgesellschaft and supplantits adventurous management with their own team?

The underlying questions in the debate over Metallgesellschaft's misfortunes reappeared this week in a flurry which sparked a crash in the group's stock price.

However, by last night, after falling by almost a third to around DM100, the shares were back where they started the week at DM145.

Deutsche has stood throughout by its claim that it adhered to the first principle of banking prudence and refused to throw good money after the bad it had dispatched into the New York oil futures market by MG Refining & Marketing.

Mr Ronaldo Schmitz, a Deutsche director, and the power behind Mr Kajo Neukirchen, MG chairman, rejected criticisms from the US – most notably from Mr Merton Miller, Nobel prize winner – of misguided crisis management and over-reaction. Mr Miller's reconstruction of events was based on false assumptions about MG's oil futures business and factual errors.

Mr Schmitz dismissed as "groundless" complaints, reportedly filed with German state prosecutors by an anonymous "committee" claiming to represent employees of MG and people "damaged" by Deutsche's handling of the affair, that Deutsche Bank was responsible for driving the group to the brink of bankruptcy – to the benefit of his own employer – and broke the law in the process.

Perhaps the most telling factor behind the share price rebound was a reminder from Mr Neukirchen of his promise that MG would show an operating profit of more than DM100m ($64.9m) in the new financial year, which starts tomorrow.

Accusations and questions are likely to persist

Mr Neukirchen and his all-new board have been beavering away at polishing the group's balance sheet and profit-and-loss account for the launch into the new year.

Among the trickier manoeuvres successfully negotiated this week, the board managed to offload a handful of shares in MG's loss-ridden environmental services subsidiary, BUS Berzelius, into the hands of unnamed, but clearly sympathetic institutional investors.

As a result, its stake in BUS has fallen below 50 per cent, and analysts expect that this year's losses will not have to be consolidated in the group result for the 1993-94 year.

Meanwhile, urgent negotiations were continuing yesterday to sell off the last of the so-called "family silver" – the group's headquarters building in the middle of Frankfurt. A private sale is possible, but failing that, creditor banks have agreed to buy the building.

Although the scale of the asset disposals has far exceeded earlier expectations, and deprived MG of rock-solid profit earners such as the Buderus heating equipment group, it now appears that the bulk of the sell-off is over and restructuring of the remnants can proceed.

But the questions and accusations which surfaced this week are likely to return. They are scheduled to be aired in a Baltimore court room on October 14. There Mr Arthur Benson, a former senior executive at MG Marketing & Refining in New York, is due to claim $1bn compensation for the damage to his reputation caused by his highly publicised sacking in the wake of the oil futures debacle.

The US legal authorities, investigating associated events, are understood to be especially interested in whether Deutsche Bank played any direct, active role in unwinding the oil futures business, and thereby infringing strict US regulations on banks' involvement in commodities contracts.

At the same time, it is unlikely that the last has been heard of complaints from the anonymous "committee". This week's well-timed and well-publicised arrival of its accusations in the state prosecutor's hands has roused speculation that standing behind the shield of anonymity is a vengeful Mr Heinz Schimmelbusch, MG's sacked and disgraced former chairman.

Christopher Parkes

BAe in friendly takeover bid approach to VSEL

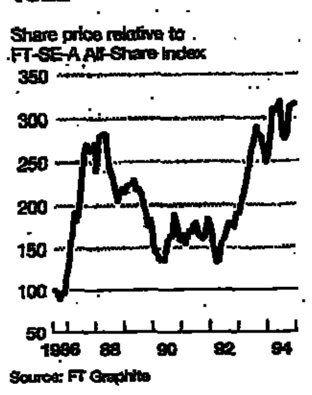
By Bernard Gray in London

British Aerospace has made a friendly bid approach to VSEL, the Barrow UK-based maker of Trident submarines. Discussions are continuing about the terms of the deal, which would offer BAe shares in exchange for those in VSEL, but full agreement has not yet been reached. A deal may be finalised as early as next week.

As VSEL confirmed an approach from an unnamed suitor yesterday, its shares leapt 252p to 1,225p, valuing the company at £465m ($734m). BAe shares fell 15p to 449p.

A deal would strengthen VSEL's attempt to become a prime contractor, controlling all aspects and risks of future submarine contracts, since it would be backed by BAe's experience of managing large projects. BAe would be able to expand its business base from prime contracting in aircraft to naval systems.

VSEL



Source: FT Graphite

VSEL was floated off from the government-owned British Shipbuilders in 1986. Employees subscribed for 20 per cent of the equity at 100p a share, but most of them have since sold their holdings.

VSEL is competing to build the next batch of Trafalgar nuclear hunter-killer submarines for the Royal Navy, an order worth around £2.5bn. For the first time in submarine construction, the contract will be awarded on a fixed-price basis, with the prime contractor taking much of the risk.

As a small company, VSEL had difficulty persuading the Ministry of Defence that it was a credible prime contractor. An alliance with BAe would ease such fears. VSEL is currently teamed with US electronics company Loral to bid for Trafalgar, and it is unclear whether a deal with BAe would scupper that alliance.

BAe is involved in the Horizon programme to develop the next generation of frigates for the UK, France and Italy, and was known to be interested in bidding for the next batch of Trafalgar submarines.

Lufthansa shares to be offered at DM182

By Andrew Fisher in Frankfurt and Richard Lapper in London

New German and foreign investors are to be offered the opportunity to buy shares in Lufthansa, the German national airline, at DM182 ($118), a small discount to the last traded price.

About 3.9m shares are being offered to private investors outside the US as part of the privatisation of Lufthansa, with the government reducing its stake from 51.4 per cent to about 41 per cent. Dresdner Bank is co-ordinating a syndicate of international banks involved in the issue.

Bankers hope the lessons learned in the sale could help them in the sale of Deutsche Telekom, one of Europe's biggest privatisations.

A decision on which foreign banks will play leading roles in the privatisation, the first tranche of which is expected to raise at least DM10bn, is expected to emerge after discussions in Bonn this week.

About 20 foreign banks have put in submissions and their presentations have been studied by Deutsche Bank, Dresdner Bank, the Bonn government and Deutsche Telekom.

That this is taking place before a global co-ordinator has been appointed for the issue, expected in 1996, has been criticised by some German banks. Both Deutsche and Dresdner are keen to win the mandate. There is speculation that Bonn might appoint both as joint global co-ordinators to avoid any criticism from Deutsche Bank's own interests in the German telecommunications industry.

It is understood that among the banks which have sent submissions to Bonn for the Telekom issue are: Morgan Stanley, Merrill Lynch, Goldman Sachs, Lehman Brothers, Salomon Brothers, S.G. Warburg, Kleinwort Benson, Barclays de Zoete Wedd, National Westminster, N.M. Rothschild, Robert Fleming, the three main Swiss banks and several French banks, including Banque Paribas, Société Générale and Banque Nationale de Paris.

UAP buys Provincial Insurance

By Andrew Jack in Paris and Richard Lapper in London

Union des Assurances de Paris (UAP), the insurance group privatised earlier this year, yesterday announced the purchase of Provincial Insurance in the UK as part of its plan to develop its network across the newly-unified European insurance market.

The move with Provincial, the privately-held group which is the UK's 15th largest general insurance company, had long been mooted.

UAP would not disclose the purchase price of Provincial, but indicated that it was "notably less" than £300m ($474m).

It said the final cost would be influenced by stock-market conditions at the time the deal is completed in November. Payment is entirely in cash.

Mr Jacques-Henri Gougenheim, general controller of UAP, who co-ordinated the purchase agreement signed yesterday, said there were no plans to lay off staff or to remove the highly respected Provincial name.

He said one of the reasons that UAP was attracted to Provincial was its telephone insurance company called Prospero, one of a growing number of companies offering motor and home insurance by telephone direct to the public, cutting out the industry's traditional intermediary, the broker.

Provincial reported pre-tax profits of £31.8m last year.

The deal signals a possible speed-up in cross-border deals by European insurers following the unification of the insurance market over the summer.

In June, Commercial Union, the UK's biggest insurer, bought Victoire, France's fifth largest life insurance company, for more than £1.5bn.

Finmeccanica cuts first-half loss

By Andrew Hill

Finmeccanica, Italy's state-controlled engineering group, managed to cut its first half loss to L146bn ($93.32m) from L160bn, but warned yesterday that the second half would be "demanding".

The company said it had not felt the full impact of gradual economic recovery because it operated in sectors like space and defence, which depend on large public investment projects, although it added that certain subsidiaries – such as the automation operations – had reported much better results.

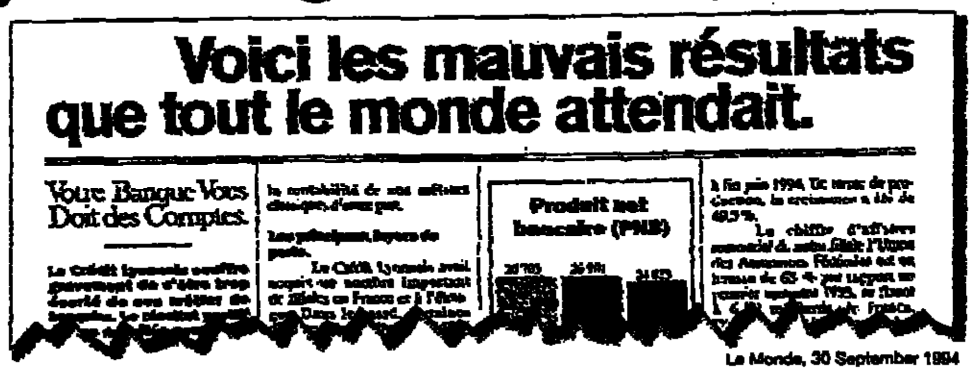
Overall turnover grew to L4,827bn from L4,696bn in the equivalent period, and the operating profit nearly doubled to L110bn from L57bn. The company attributed the increase to the benefits of continuing rationalisation.

Net debt fell to L5,882bn at June 30, compared with L6,311bn a year earlier, and financial charges were cut to L152bn (L190bn).

● Parmalat, the Italian dairy products group, increased consolidated pre-tax profits in the first half of this year to L75bn, from L55bn in the first six months of 1993.

Crédit Lyonnais goes to the people

By Andrew Jack in Paris



Le Monde, 30 September 1994

Crédit Lyonnais, the embattled French banking group, is pleading directly with its customers and staff in an effort win back their support after months of negative publicity.

The bank, which reported losses of FFr4.5bn ($850m) earlier this week, yesterday launched a strongly-worded campaign with advertisements in all 66 regional French papers and most of the national press.

The full-page advertisements describe the company's position and prospects at length, with the first one headlined: "Here are the bad results that everyone has been waiting for". A further four will follow over the next few days.

In an even more unusual move, Crédit Lyonnais's final advert next Tuesday will announce operation "open-door evening" next month, when its 2,200 French branches will open until 9pm to answer questions about its financial state from anxious customers.

Asked whether it could justify spending the FFr15m-FFr20m that the campaign is costing on top of the large losses, it said: "People had been hearing about Crédit Lyonnais for some months. We felt it was necessary to do something rather strong rather than keeping silent."

The bank admitted that the campaign was focused as much on its own 38,000 embattled employees as on the roughly 6m account holders with the bank. They have been questioning their commitment to the bank after the FFr6.9bn losses reported in March and a scathing parliamentary inquiry published over the summer.

"Demoralisation would not be a good word, but it is clear that there has been pressure on the network since March which is hard for everyone," it said. However, the bank claimed that it had not experienced any loss of depositors since news of its troubles began to emerge.

"The message is that we don't want clients to forget that we are professionals, that we have nothing to hide and that there are many things we can still be proud of," the bank said.

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Redland seeks Frankfurt listing

By Andrew Taylor, Construction Correspondent

Redland, the British building materials group, is to seek a Frankfurt stock exchange listing after announcing a 40 per cent rise in German profits in the first half of this year.

Germany accounted for half the operating profits of £157m ($248m) and 26 per cent of turnover of £1.27bn. Redland's share price, however, fell 5 per cent yesterday in spite of a 36 per cent rise in group pre-tax profits to £147.4m.

The 29p decline in the share price, to 493p, came after Redland revealed that a higher-than-expected tax charge of 33.3 per cent in the first half could climb to 35 per cent next year with higher German taxes.

Mr Robert Napier, chief executive, said the planned listing would let German shareholders invest in Redland more efficiently. Shares acquired in Frankfurt would be accompanied by profit participation certificates enabling dividends to be paid out of German earnings.

Under German tax arrangements, local shareholders would receive about 25 per cent more on average from dividends paid in this way, after all deductions, than under the present arrangements, Mr Napier said.

In the first half, Redland is paying a maintained interim dividend of 8.25p from earnings per share up from 11p to 12.9p.

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Attwoods seeks to thawrt bid

Attwoods, the UK waste services group, yesterday sought to throw off balance the hostile £364m ($575m) bid from Browning Ferris Industries of the US by claiming the predator had evaded questions over possession of confidential information, writes Peggy Hollinger in London.

The move was aimed at complicating preparations for the publication of BFI's offer document, expected next week.

Sandvik abandons German deal

By Christopher Brown-Humes in Stockholm

Sandvik, the Swedish engineering group, has abandoned plans to buy the cemented carbide activities of Germany's Krupp Widia after objections from the German cartel authorities.

Its move came after the Bundeskartellamt, the German anti-trust authority, said Sandvik would gain too strong a position in certain products in Germany if the acquisition went ahead. It said Sandvik's market share would be more than 30 per cent in segments such as inserts for lathes.

Sandvik believes the authority was looking too narrowly at specific market segments rather than at the wider market for metal cutting tools when it reached its decision.

The purchase, which would have lifted Sandvik's turnover by SKr1.6bn a year from its current SKr22bn ($2.8bn) was agreed in February as part of the company's plans to develop its operations in Germany, its second biggest market. The purchase price was not disclosed.

Sandvik said Krupp Widia would have been run independently so that competition would not have been affected. There would have been scope for technology exchange and common purchase of raw materials, it noted.

Mr Clas Ake Hedström, Sandvik chief executive, said: "We are convinced the transaction would have provided benefits for several parties, particularly Widia and the German engineering industry."

Sandvik stressed that its broader expansion plans had not been derailed.

Nordic bank doubles profits

Higher interest income and an absence of credit losses enabled Nordic Investment Bank, jointly owned by the five Nordic countries, to double profits in the first eight months to Ecu66m ($81.84m) from Ecu32m, writes Christopher Brown-Humes.

The Helsinki-based bank said the outlook remained positive, and it expected full-year profits to be about 50 per cent higher than last year's Ecu64m.

The bank said it did not suffer any loan losses during the period.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Prices for Trading on 30.09.94 Pool purchase price £/MWh	Final Prices for Trading on 02.09.94 Pool purchase price £/MWh	Pool selling price £/MWh
0030	11.00	15.92	17.77
0100	11.00	10.50	10.50
0130	11.00	10.50	10.50
0200	11.00	10.50	10.50
0230	11.00	10.50	10.50
0300	11.00	10.50	10.50
0330	11.00	10.50	10.50
0400	11.00	10.50	10.50
0430	11.00	10.80	10.80
0500	9.65	10.90	10.90
0530	9.65	10.95	12.80
0600	9.60	10.95	12.80
0630	10.50	13.16	15.01
0700	16.15	16.25	18.10
0730	20.47	18.39	20.24
0800	20.90	18.82	20.68
0830	24.19	20.92	22.78
0900	28.69	20.94	22.81
0930	28.69	26.16	28.03
1000	20.91	26.17	28.04
1030	20.91	26.17	28.04
1100	20.48	26.16	28.04
1130	20.80	26.16	28.03
1200	20.49	26.16	28.03
1230	20.89	26.15	28.01
1300	20.89	26.13	27.99
1330	17.95	20.65	22.51
1400	17.95	19.93	21.79
1430	16.98	18.82	20.67
1500	16.98	18.82	20.67
1530	16.98	18.82	20.67
1600	10.55	18.82	20.67
1630	16.98	18.82	20.67
1700	16.98	24.57	26.42
1730	16.98	24.57	26.42
1800	16.98	24.57	26.42
1830	16.98	18.19	20.04
1900	28.54	18.39	20.24
1930	28.54	17.68	19.54
2000	28.54	17.96	19.63
2030	16.98	31.00	32.85
2100	16.98	31.64	33.49
2130	16.98	24.28	26.14
2200	16.52	16.77	18.62
2230	15.83	17.98	19.83
2300	15.15	16.07	17.92
2330	10.50	16.25	18.10
2400	10.10	13.16	15.01

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour. Rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £10.00/MWh becomes 1.000p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone [illegible] between 9.30am and 5.15pm Monday to Friday.

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Credito Italiano shares hit by fund-raising plans

By Andrew Hill in Milan

Shares in Credito Italiano, the recently privatised Italian bank, fell nearly 5 per cent yesterday after it announced plans to issue new shares and warrants to raise up to L1,520bn ($975.5m) for acquisitions.

The decision to raise more capital – announced late on Wednesday – comes four months after Banca Commerciale Italiana, also privatised earlier this year, decided to raise L1,575bn with a similar discounted share issue.

The BCI issue was fully subscribed when it closed last week, but investors in both cases have demonstrated their disappointment that the banks want to raise capital so soon after privatisation.

Credito Italiano's issue will be priced at L1,500 a share, compared with Wednesday's closing price of L2,246. Yesterday the shares fell to L2,140.

BCI shares also slipped yesterday, from L4,081 to L3,950, as the market absorbed news that Consob, Italy's stock exchange watchdog, would not call for a formal bid to be launched by corporate investors who bought stakes in the two banks after privatisation.

Critics of the sell-off claimed that allies of Mediobanca, the Milan merchant bank, had taken effective control of Credito Italiano and BCI. However, Consob said on Wednesday there was not enough evidence of a secret pact between the company's large shareholders to prompt an obligatory bid.

Credito Italiano also announced a fall in the parent company's net profits, to L83.5bn for the first half of 1994 from L133.5bn in the same period last year, after incurring paper losses on its share and bond portfolio. Financial operations reported a loss of L215bn in the first half, compared with a profit of L176bn in the first half of 1993.

As well as the issue of new shares and warrants – on the basis of two new shares for every five held – Credito Italiano is to issue one new bond with warrants attached for every five shares held, raising a further L1,120bn.

Separately, Banca Nazionale del Lavoro, the state-controlled Italian bank, has announced a rise in parent company net profits to L40bn from L27bn in the first half of 1994, although the poor banking climate meant pre-tax profits were lower than in the equivalent period.

The first-half results of Banca di Roma, another of Italy's biggest banks, have also been affected by difficult trading. Gross operating profit fell 20 per cent to L786bn, after write-offs and provisions of L571bn.

Paribas beats trend with rise

By Andrew Jack in Paris

Paribas, one of the leading French banking groups, yesterday reported group profits up 13 per cent to FFr1.27bn ($241m) in the first half of 1994.

The rise stood in sharp contrast to the difficulties experienced by some of its competitors. Paribas was also able to announce provisions down 9 per cent to FFr4.32bn, compared with the first half of last year.

However, there was a 64 per cent growth in provisions for Crédit du Nord, the group's wholly-owned subsidiary, which reported first-half losses of FFr191m. That compared with losses of FFr460m in the first half of 1993.

Paribas said the results reflected a notable reduction in market-related activities, offset by growth in commercial banking activities and a reduction in provisions.

Mr Michel François Poncet, chairman of the supervisory board, said: "We will continue to navigate in a changing and difficult market."

Global revenues rose 1.4 per cent to FFr17.49bn, with operating profits down 3.9 per cent to FFr7.49bn in the first half of the year. Depreciation charges rose 5.8 per cent to FFr10bn.

Mr André Levy Lang, director of the group's management board, said: "Our aim is to be an international group with a French base. These results are a step in the right direction."

Loans to clients dropped 4.8 per cent to FFr395bn and deposits rose 1.9 per cent to FFr210bn, with the balance sheet total jumping 1.1 per cent to FFr1,371bn.

Toshiba and IBM form technology alliance

By Alan Cane

Toshiba of Japan and the US's International Business Machines yesterday raised the stakes in the so-called "microprocessor wars" by announcing an alliance through which Toshiba will adopt IBM technology for some of its key computer products.

The companies said Toshiba would license IBM's PowerPC microprocessor design and the AIX operating system. The microprocessor is the heart of a modern computer system, determining the power of the computer and the kind of software it can use.

A fierce struggle is raging between semiconductor manufacturers anxious to establish their microprocessors as the industry standard, and so reap the lion's share of royalties from computer manufacturers.

Intel of the US is the undisputed leader. Its microprocessors are used in about 90 per cent of the world's personal computers. PowerPC, however, is a new kind of microprocessor known as "risc", which offers significantly higher performance. Developed by IBM in conjunction with Apple Computer and Motorola, both of the US, it is being used by companies including Canon, Groupe Bull, Hitachi, Tadpole Technology and Thomson-CSF.

The chances of a company establishing its microprocessor as the standard increase with the number of licensees. Toshiba, which has a commanding position in portable computers worldwide, is a valuable ally for IBM.

Mr Patrick Toole, an IBM vice-president, said: "This announcement strengthens and extends our alliance with Toshiba while helping establish market acceptance of the PowerPC as the industry-leading risc microprocessor." The two companies are already working together on advanced liquid crystal displays and semiconductor technologies.

Competitors for IBM's PowerPC include Digital Equipment with the Alpha chip, Sun Microsystems with the Sparc chip, and Intel which is working with Hewlett-Packard.

Digesting the bad news at Alcatel

John Ridding looks at why the French group's shares have weakened

For Alcatel Alsthom, one of France's largest industrial groups, yesterday was the darkest day in a harrowing year. The telecoms, transport and engineering group watched almost 14 per cent of its market capitalisation disappear in a sell-off on the Paris bourse.

The immediate cause of the rout was a warning late on Wednesday that profits for the year would fall much more sharply than the 10 to 20 per cent decline forecast in January. Mr Pierre Suard, chairman, predicted a net result of about FFr4bn ($758m) this year, some 40 per cent below the FFr7.06bn recorded in 1993.

Alcatel said a fall in the share price was to be expected following its profits forecast. But it said the decline was excessive, and emphasised that the company remained one of France's most profitable business groups.

For some observers, however, the scale of the sell-off reflected a succession of setbacks which had surprised investors and raised questions about the group's prospects.

As well as the profits warnings – the first since 1987 when rapid expansion elevated the company to the ranks of the country's most profitable industrial groups – investors have also been unsettled by a legal case involving Mr Suard. In July, the Alcatel chairman was placed under investigation by a prosecuting magistrate in Versailles, accused of irregularities relating to payments at his Paris properties. He strongly rejected the allegations.

"There have been a number of incidents which have worried investors. But Wednesday's announcement was the really nasty surprise," said one telecommunications analyst at a Paris merchant bank. "It raises some important questions," he said.

Among the most important are why has this year's performance deteriorated so sharply? More broadly, does the decline reflect deeper problems at the group and in the international telecoms equipment industry?

For Mr Suard, the questions are a cause for concern, but not alarm. Announcing his forecast on Wednesday, he described 1994 as a difficult year, blighted by specific problems. But he said it would mark "the low point in the group's fortunes", and that next year would bring improved results.

The specific problems referred to concern the company's telecoms operations. Its engineering activities, which include the construction of power stations and manufacture of the high-speed Train à Grande Vitesse with its UK partner GEC, performed largely in line with expectations and with last year's results. In telecoms, however, the group was badly derailed.

In Brazil and Turkey, government austerity programmes and a consequent tightening of budgets for telecommunications equipment prompted a fall in sales and the freezing of contracts. The effect will be exceptional losses of about FFr300m in each country this year.

The biggest problem, however, is Germany. The decline in investment in eastern Germany, and the shift by Deutsche Telekom, the state telecoms operator, to increase competition for supply contracts, are blamed for a sharp fall in demand and prices. For the full year, Mr Suard expects revenues at SEL, Alcatel's German subsidiary, to decline by about 20 per cent. Losses relating to the operation are expected to total about Ecu200m ($161.8m) for the year.

Alcatel had warned of its German difficulties in January, but resolving the problems proved harder than expected. One reason, according to Alcatel, was that the necessary restructuring measures at the company's German plants had been delayed by the system of co-management with workers.

Cost-cutting measures are now under way. By the end of next year, the company will have reduced by about 20 per cent its 20,000-strong workforce, says Mr Suard.

For some observers, however, this provides limited reassurance. "The most worrying aspect is that the scale of the problems in Germany was lost on the management," said one analyst.

Another concern is that developments in Germany reflect a deeper structural challenge for Alcatel. Deutsche Telekom's shift to a more open system for awarding supply contracts shows the pressures confronting many international telecoms operators in an increasingly competitive sector. With the liberalisation of the European telecoms market, scheduled for 1998, and with several large operators, including Deutsche Telekom, heading for privatisation, the pressure to reduce costs and prices paid to suppliers is sure to increase.

Mr Suard accepts the trend is under way. He draws a parallel with the deregulation of the airline industry in the US, which prompted a period of turbulence and fierce competition. However, he believes that much of the fall in prices facing equipment suppliers has already happened. More important, he claims, is that Alcatel's problems are outweighed by its strength in new technology and new markets.

He mentions the company's success in winning more than 40 per cent of the contracts to supply fibre optic networks for Germany. In the US, Alcatel Network Systems has become the biggest supplier of SDH digital transmission systems, and has established a strong position in broadband telecoms switching equipment.

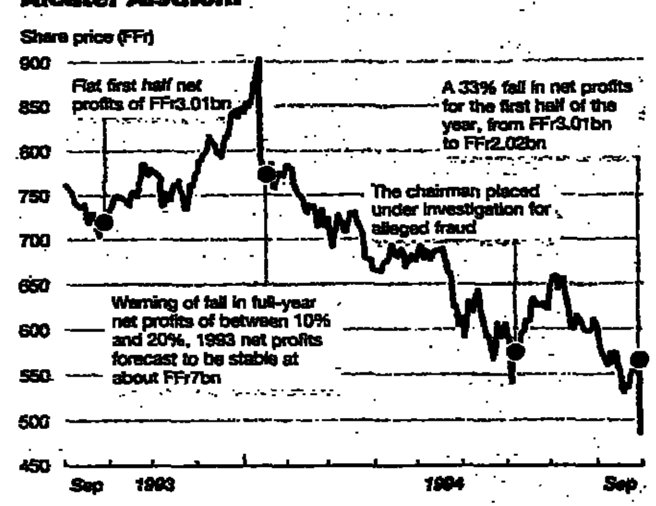
As well as the new technology, which will play a central role in the development of multimedia and information superhighways, the company has continued its aggressive expansion into international markets. In China, for example, a stream of contracts from central and regional governments this year has reinforced Alcatel's position as the dominant player in the world's fastest-growing telecoms market.

The problem for Alcatel, however, is that demand for multimedia equipment will take time to become a substantial profit centre. In its markets such as China, competition is intensifying. "The group has some attractive prospects. But the problems they face are more immediate," says one analyst.

Closer to home, there is another important contract on the horizon. The French government is set to announce the winner in the fiercely contested competition for France's third mobile telephones licence. With the country's mobile phone market now rapidly, if belatedly, expanding, the licence is regarded as a lucrative source of business by the three contenders: Alcatel, Lyonnaise des Eaux, the utilities group, and Bouygues, the construction group.

A victory for Alcatel would provide a badly needed boost after all the bad news. However, after the shocks of the past nine months, it will take more to assuage investors' concerns.

Alcatel Alsthom



Source: FT Graphite

Home shopping move by News

News Corporation has made its first move into home shopping through a joint venture with Warnaco, the US manufacturer of up-market underwear.

Warnaco products will be marketed in Asia through News Corp's Star TV network. The companies said they hoped to extend the agreement into Europe, Mexico and Latin America.

Rover Bulgaria venture

By Theodor Troev in Sofia

Rover Bulgaria, an offshoot of Rover, the UK-based subsidiary of BMW of Germany, has joined the Sofia-based Daru group in a joint venture to invest an initial $20m in a car assembly plant at Varna on the Black Sea.

Rover Bulgaria has taken a 51 per cent stake in the joint venture with the Bulgarian private company, which is the official BMW distributor and also holds equity stakes in several other private Bulgarian companies, including the bank for agricultural credit and the Vitosha insurance company.

The new joint venture will initially assemble up to 10,000 Maestro models annually from completely knocked down kits shipped from Rover's plant at Cowley near Oxford.

AlliedSignal to buy Ford spark plug unit

By John Griffiths

AlliedSignal, the US automotive components and aerospace multinational, is to challenge Robert Bosch, Champion, Japan's NGK and other rivals in the European market for vehicle spark plugs.

It has reached an agreement in principle under which it will acquire, for an undisclosed sum, Ford's only remaining spark plug manufacturing operations worldwide, at Treforest in Wales.

Initially the plant, which employs 330 people, will continue to be the source of Ford's only spark plug supplies in Europe. However, it will quickly seek other European customers, Mr Ralph Reins, president of AlliedSignal Automotive, said yesterday.

AlliedSignal, which employs more than 100,000 people worldwide and whose automotive operations include Bendix braking systems, Garrett and other motor component names, is already the sole supplier of spark plugs to Ford in North America, where it manufactures around 250m plugs annually.

The Treforest facility makes 30m spark plugs a year, used by Ford as original equipment and sold in the after-market under the Motocraft brand name. However, such production volume is regarded by Ford as uneconomic in a European markets which absorbs about 1bn spark plugs a year. In common with the "outsourcing" policies of other car makers, it is steadily disposing of what it regards as non-core manufacturing activities.

The agreement should be finalised in time for the Treforest facility to become part of AlliedSignal's filters and spark plugs division on January 1. The division employs 3,800 and had sales of over $400m in 1993. The plugs will use Motocraft and Autolite brand names.

AlliedSignal already has almost 1,600 employees in the UK, based mainly in Carlisle and Skelmersdale, manufacturing seat belt systems and turbochargers.

Blockbuster cleared for Viacom merger

By Richard Waters in New York

Shareholders in Blockbuster, the US video retailing group, yesterday narrowly voted to merge with Viacom, the entertainment group. The vote ushers through a deal which appeared to be on the rocks only a matter of weeks ago.

The deal was approved by holders of 57.7 per cent of Blockbuster's shares.

An agreement, valuing the company at $7.6bn at yesterday's market price, was an important element in Viacom's financial strategy after it bid $10bn for Paramount. Blockbuster's strong cashflow was to be used by Viacom to help service the substantial debt taken on to acquire the US entertainment group.

The deal was thrown into doubt, however, by a steep fall in Viacom's share price earlier this year. The non-voting B shares, the main currency for the deal, tumbled from $45 at the start of the year to $21⅞, eroding the value of the all-share transaction for Blockbuster's shareholders and prompting several big institutions to oppose the merger.

Viacom's shares have staged a recovery in recent weeks, aided by the success of several big Paramount movies and the rapid disposal of a number of Paramount assets to raise cash. This, in turn, prompted optimism among Viacom shareholders that the Blockbuster merger would be consummated, in turn lifting Viacom's share price further. At midday yesterday, Viacom B shares were trading at $39, up $⅝ on the day.

Despite the recovery in the shares, resistance to the transaction continued up until the last minute. However, with 23 per cent of the shares in the hands of the Blockbuster management and a handful of supportive institutions, the likelihood that it would succeed had been growing in recent weeks.

The merger agreement with Blockbuster, negotiated in January, had been due to expire at the end of this week.

INTERNATIONAL COMPANIES AND CAPITAL MARKETS

US banks 'in lending frenzy'

By John Gapper in Madrid

FT Conferences

A warning that US banks are in a "feeding frenzy" to lend to large companies, and have started to sacrifice credit standards in exchange for short-term earnings, was given yesterday by Mr Richard Boyle, vice-chairman of Chase Manhattan Bank.

Mr Boyle told a Financial Times conference on international banking in Madrid that high levels of capital and liquidity had sharpened competition in syndicated lending.

A "lemming mentality" had returned and benchmarks of proper risk and reward "have been replaced by the spectre of what the competition is doing", said Mr Boyle, who is in charge of credit policy at Chase.

He said regulation was encouraging excess capacity. "There has been far too little deregulation than is really needed to ensure the healthy banking environment that regulators should espouse."

Mr Michael Foley, a senior analyst at Moody's Investor Services, said that despite worries about syndicated loans, improvements in risk and portfolio management had lessened US banks' risks from credit defaults.

Mr Foley said that although interest margins were likely to narrow in the long-term in the US, banks had maintained strong margins in the first half of the year despite the rise in US short-term interest rates.

Lord Alexander, chairman of National Westminster Bank, said that banks in mature economies "where there is high capacity in the market and a strong consumerist lobby" would have have to seek international growth.

Lesser-developed countries, "some of which are developing extremely speedily, may offer more dramatic prospects of new and profitable business but with great risk of high inflation and economic volatility".

Lord Alexander said banks were "like chameleons: they are coloured by changing economic environments". When the next downturn occurred, the successful banks would be those that anticipated it and adapted themselves.

Derivatives losses such as those suffered by Metallgesellschaft suggested that "a corporate treasury function would be well served by the advice of an expert banker when dealing in complex financial instruments".

Mr Emilio Botin, chairman of Banco Santander, suggested that banks could help banking regulators by jointly developing methods of measuring the impact of interest rate risks on the whole of balance sheets.

Mr Botin said he could see "no more than half a dozen" banks that could aspire to being truly global, but other banks could diversify their risks and find new businesses through internationalisation.

He said that banks could develop links with telecommunications companies to create new banking products, as well as linking with insurance companies to provide "bancassurance" products through branches.

Mr Gerrit Tammes, a member of the executive board of Internationale Nederlanden Groep, said that in most European countries, banks were rapidly increasing their share of the life insurance market.

There was a trend towards "one-stop shopping" for financial services from a single provider, but many consumers had "lost their way in the labyrinth of products, services, rules and regulations".

He said that banks' best chance of success in "bancassurance" was in asset management.

Members of ageing populations were seeking investments with higher long-term returns to substitute for state pensions.

Mr Horst Kohler, president of the German Savings Banks Association, argued that the 1,500 savings banks, with 63,000 branches in Europe, were essential to maintain both competition and local distribution of capital.

Many countries had discovered that large companies "are not guarantors for either jobs or tax revenues in local regions" and savings banks provided local support to small and medium-sized enterprises.

He said the local role of savings banks' made them less likely to "seek opportunities solely in a highly detached financial sphere".

Commercial banks were at risk of "over-concentration on pure financial business".

Banesto 'flexible' on Totta holding

By Tom Burns in Madrid

Mr Alfredo Saenz, chairman of Spain's Banesto, said yesterday that he was prepared to be flexible about his bank's disputed shareholding in Portugal's profitable Banco Totta & Açores group, but that Banesto insisted on maintaining management control of Totta.

Banesto owns 24.9 per cent of Totta and it has an indirect stake of 25 per cent, placed with Portuguese portfolio companies, which is held in loans with purchase options.

The Portuguese government has contested the Spanish bank's indirect holding and the disputed equity is now the object of a parliamentary investigation in Lisbon.

"We are legally in the clear for what we hold directly, there is nothing illegal about the indirect equity and our position in Totta is backed by European Union legislation," Mr Saenz said.

He added that there was no question of Banesto relinquishing management control of the Portuguese bank.

"We have control, we want to have it and we are not going to lose the business."

But Banesto's chairman conceded that the issue had become intensely politicised and that it was "uncomfortable" to be in confrontation with the Portuguese authorities. "We are therefore disposed to be flexible," Mr Saenz said.

Under the guidelines of Totta's privatisation in 1989, no foreign institution may own more than 25 per cent of the bank.

The Portuguese government continues to hold 14.5 per cent of Totta.

Banesto was rescued by the Bank of Spain in December last year, refloated in a major salvage operation and taken over in April by Banco Santander, the leading Spanish bank which paid $2.2bn for 73 per cent of the troubled bank's equity.

Under the terms of its acquisition of Banesto from Spain's deposit guarantee fund, Santander will on Monday be disposing of 13 per cent of its Banesto equity to Banesto's existing shareholders, offering one share for every two held at a par value of Pta400.

Chinatrust flies Taiwan's flag in heart of the City

By Peter Montagnon

There were no fire crackers at yesterday's launch of Chinatrust International Securities, the first Taiwanese investment bank to open for business in the City of London. But that there was going to be plenty of other razzmatazz was clear even before the official ceremony began.

Dr Jeffrey Koo, chairman of the new bank's parent in Taipei, picked his way from room to room past a myriad of bright paper decorations and extravagant floral displays while a brown and white police spaniel checked the premises for bombs ahead of the arrival of his honoured guest – Lady Thatcher, the former UK prime minister.

It was not a bad show for a group whose total banking assets are still only $18bn, but then Chinatrust, which aims to become a global business with a position in the ranks of the world's top 100 banks, is strikingly long on ambition.

Founded with capital of just $2m in 1966, the parent bank only acquired a Taiwanese commercial banking licence two years ago and is already spreading its wings across Asia. It helps that Chinatrust is the flagship financial vehicle of the Koo family, reckoned to be the second richest family in Taiwan, whose industrial interests range from cement to petrochemicals, hotels and cable television.

The ebullient Dr Koo, who is a senior adviser to Taiwan's prime minister and says he met Lady Thatcher over dinner when she visited Taipei, obviously knows how to cultivate connections. These will doubtless be put to good use in the UK. The new investment bank aims to help Taiwanese companies raise capital abroad

It was not a bad show for a group whose total banking assets are still only $18bn

through the issue of convertible bonds, to channel portfolio investment into the Taiwanese market as well as to manage Taiwanese investments in Europe.

It is a daunting task because, unlike the foreign securities companies which are now established in Taipei, Chinatrust lacks securities distribution capacity in Europe.

But Dr Koo says distribution will always be a problem for new entrants to the market. London is a good place to start because about 30 to 40 per cent of foreign investment in Taiwanese equities originates in the City. Chinatrust believes it can sell its services on the basis of the quality of its research. "We can offer good advice to UK investors," he says.

The limit on foreign investment in the Taiwanese market, set presently at $7.5bn, should not be a problem. There is room for another $2bn in investments and the limit will be increased when the ceiling is reached, he says confidently. It is simply that the pace has to be controlled. "When Japan started to liberalise it took them 10 years. We are doing it at a very fast pace."

Perhaps, however, Chinatrust will make its main initial mark in the bond market. Dr Koo believes the interest of Taiwanese companies in issuing convertible eurobonds is large and growing. While the Taiwanese government controls the country's $90bn in foreign reserves, it is relatively hard for private sector companies to raise foreign currency from domestic banks.

The risk is that Taiwanese companies will set out on an issuing spree similar to that undertaken by Japanese companies in the 1980s. As they latched on to the low cost of borrowing in this way, the market became saturated with paper which eventually proved a poor investment as the stock market slid.

Yet Dr Koo believes there is a difference. Whereas Taiwanese companies tend to raise funds for specific projects, many Japanese issuers were simply following the herd. "When the bubble economy burst, they still had to bear the cost no matter how cheap the money.

"The Taiwanese will never do that. They are more pragmatic. They will never raise funds just to feel comfortable."

Hong Kong enforces disclosure standards

By Louise Lucas in Hong Kong

Companies listed on the Hong Kong stock exchange will be forced to meet more stringent disclosure requirements from tomorrow with the introduction of sweeping reforms aimed at increasing transparency and internationalising standards in the colony.

The changes, which embrace China companies listed in Hong Kong, will require directors to disclose their fees, perks, pension scheme contributions, bonuses and any golden handshakes or pay-offs, and force directors and senior managers to detail their relationships with one another.

Mr Herbert Hui, executive director and head of listing, said: "The changes will increase the transparency of listed companies and will bring accounts disclosures to a level compatible with Hong Kong's position as a major international financial centre."

Companies will be obliged to provide details of the principal pension schemes, including the charge to the profit and loss account for contributions, and to furnish shareholders with revaluations of properties and other tangible assets. Investment properties and certain properties held by property companies may be exempted from the latter requirement.

Major customers and suppliers will also have to be listed, and the exchange is making an attempt to increase companies' low levels of analysis.

A discussion of the results for the year is to be included in the annual accounts and a new guidance note is being brought in for comment on liquidity, financial resources, investments, potential acquisitions and disposals, and elaboration of segment information given in the directors' report.

Mr Hui has also written to all listed companies urging them to circulate their results to as many newspapers as early as possible "to ensure a wider press coverage for the listed companies' financial information which the public should know".

Kenya to allow foreign bids in Firestone public share offer

By Leslie Crawford in Nairobi

The Central Bank of Kenya is to allow foreign institutional investors to bid for shares in the public flotation of a Kenyan company for the first time in the history of the Nairobi Stock Exchange (NSE).

The owners of Firestone East Africa (1969), the only tyre manufacturer in Kenya, are offering 20 per cent of the company's shares for sale in the biggest initial public offering in Kenya to date.

If the offer for sale is fully subscribed, it will raise Ks1.4bn ($27.9m) for Bridgestone/Firestone Inc of the US and Sameer Investments of Kenya, which own 19 per cent and 81 per cent of the local tyre manufacturer respectively.

The offer has been priced at 10 times 1993 earnings, which is comparable with other manufacturing companies listed on the NSE.

The Kenyan stock market is still officially closed to foreign participation regulations but Firestone East Africa obtained a special exemption due to the size of the share offer.

"We believe the government is using Firestone as a test case to assess the interest and the impact of overseas investors in our stock market," said Mr Issa Timamy, group company secretary at Sameer Investments. With at least two local banks planning flotations before the end of the year, Mr Timamy believes the central bank will gradually relax the rules of foreign participation.

The restrictions on foreign portfolio investment are virtually the last foreign exchange controls to remain following a year of steady deregulation. The Kenya shilling is fully convertible for all current account transactions. Exporters can retain proceeds in foreign currency and multinationals can remit profits and dividends.

Nevertheless, the central bank is proceeding cautiously. Only 8m shares – one-fifth of the offer – will be available to overseas bidders, who must be institutional investors. Underlying central bank concern is possible disruption caused by large flows of foreign funds on a small, illiquid stock market.

Daily turnover on the NSE rarely exceeds Ks21m and the NSE index, although volatile, is up by 50 per cent since the beginning of the year. Nairobi stock brokers believe Firestone's issue will be of interest to overseas investors wishing to obtain a toe-hold in one of Africa's emerging markets.

Earnings jump at Sino Land

By Louise Lucas

Sino Land, the property development and investment company which is to become a constituent of the Hang Seng Index in February, yesterday reported a 64 per cent surge in net profits to HK$1.48bn (US$191.7m) for the year to June 30, compared with HK$900.59m in 1992-93.

Shareholders are to receive a one-for-10 bonus share issue in addition to a final dividend of 16 cents. The dividend may be taken in new shares or cash. Earnings per share, on a fully diluted basis, rose 47 per cent to 63.8 cents from 43.3 cents.

Sino Land, traditionally one of Hong Kong's most aggressive property developers, bought eight sites with a potential gross floor area of around 1.3m sq ft in the year. It now has a land bank of some 12.7m sq ft, of which seven projects are to come on stream in 1994-95.

The group is stepping up its investment in industrial properties and is planning to modify some of its better located sites into industrial/office developments to meet growing demand.

Around one-third of the land bank is made up of investment properties, and gross rental income last year rose 15 per cent to HK$758.7m.

The total value of the group's investment properties stood at HK$25.4bn at the end of the financial year, an increase of 70 per cent.

Mr Robert Ng, chairman, expects rental income to play an increasingly important part in group profitability.

Sino Land plans to spin off its hotel interests in a separate listing, and yesterday submitted a formal application for the listing of the new hospitality arm, Newco.

Mr Ng noted that while steps to cool the property market – taken by both the government and the banks, which lend up to a maximum 70 per cent of property values – had proved to be effective, the fundamentals of sound economic growth, rising real incomes and a shortage of land mean properties remain an attractive investment.

Namibian Minerals listed in Windhoek

By Mark Suzman in Johannesburg

The Namibian Minerals Corporation, already listed on the Vancouver stock exchange, listed on the Windhoek stock exchange yesterday, becoming the first to list in southern Africa and North America.

Namco is focused on the development of offshore diamond resources in Namibia and has acquired concessions off the Namibian and South African coasts.

Namco intends to use advanced remote vehicle technology to exploit the high grade diamond-bearing sands, and hopes to be producing up to 3 per cent of global gem diamond output by 1998.

The company's listing is being effected via a R30m ($8.45m) share placing through South African brokers Simpson McKie. Its market capitalisation in Canada is C$115m (US$85.64m).

NSW State Bank sale agreed

By Nikki Tait in Sydney

The State Bank of New South Wales, the fifth largest bank in Australia, is to be sold to Colonial Mutual, the Melbourne-based insurance group, for A$576.5m (US$426.75m).

The sale was formally announced yesterday by the New South Wales government, which first released plans to privatise the bank by way of a trade sale last year.

The identity of the buyer, however, comes as no surprise as all the potential bidders withdrew except Colonial Mutual.

When the sale process was initiated last November, NSW Treasury estimates put the price at between A$400m and A$700m, although some analysts suggested figures closer to A$1bn.

Yesterday, the NSW Treasury denied that it had received a fire-sale price for the bank, saying that the sum "reflects the future prospects of the bank".

It also said that Colonial Mutual had undertaken to make a capital injection of A$350m into the bank at the end of four years.

The deal also includes a restriction that the bank cannot be sold to any of Australia's four big banking groups within three years. In addition, it is required that the bank's headquarters remain in Sydney for at least five years, while the number of branches – currently 293 – cannot fall below 260 for three years.

Colonial Mutual must pay A$526.5m by January, with the remainder due over a three-year period.

Shortly after the sale was announced, Standard & Poor's, the US rating agency, placed its AA- claims paying rating of Colonial Mutual on creditwatch, with negative implications. It said that the acquisition was not expected to substantially weaken the insurer's financial profile, but that the creditwatch reflected the fact that funding and ownership structure had yet to be finalised.

S&P affirmed SBNSW's ratings, on the basis of the new state guarantee covering all funding liabilities and associated off-balance sheet liabilities for not less than three years.

Pasminco calls off Korea Zinc joint venture

By Nikki Tait

Pasminco, the Australian zinc producer, has called off its proposed joint venture agreement with Korea Zinc, the zinc smelting group, over the Elura zinc-lead mine near Cobar, in New South Wales.

The proposed deal, announced in March, envisaged that Korea Zinc would pay around A$40m (US$29.4m) for a 40 per cent interest in the mine – A$27m up front, and the remainder when the mine was upgraded. Pasminco would then have taken about 60 per cent of the output to supply its Australian smelters.

Yesterday, however, Pasminco said that the subsequent due diligence process had thrown up "a number of commercial issues with implications for the purchase price".

"The parties were unable to resolve these issues and they have agreed not to proceed with the ... joint venture," it added.

Russia's RNGS to sell shares

By Richard Lapper

Shares in the Russian company JSC Rosneftegazstroy (RNGS), the legal successor to the former Soviet ministry for oil and gas construction, are to be offered to international institutional investors through a series of private placements.

RNGS, advised by Geneva-based Rhone Finance, expects to raise up to $35.5m through the sale of 3.7 per cent of the company's shares. It has permission to sell up to 10 per cent of the company.

Under the terms of the initial placement the shares will carry a fixed dividend of 8 per cent, payable half-yearly – in US dollars – and will be redeemable up to December 31, 2000. Funds from the private placements will be used partly for real estate development in Moscow.

RNGS is a general contractor on oil and gas construction, municipal and commercial construction and infrastructure development in Russia. It has 200,000 employees and has management control over 37 oil and gas companies under a co-operation agreement with the ministry of fuel and energy.

Meanwhile, senior managers from five Russian self-styled "blue chip" companies yesterday presented details of recent performance and outlined their companies' prospects to investors in London.

Denway earnings drop to HK$19m

By Louise Lucas

Denway Investments, which indirectly controls a 46 per cent interest in Peugeot's car manufacturing business in Guangzhou, has reported a 90 per cent drop in first-half net earnings, down to HK$19m (US$2.46m) from HK$201m.

This is just a fraction of the HK$132.9m earned in interest income from its massively popular public offering last February. Setting a new record in a market renowned for excess, Denway's issue was 557 times oversubscribed pulling in HK$240bn – or around one-third of Hong Kong's GDP – for HK$402m worth of stock.

Even stripping out last year's one-off interest income, profits were still down by 68 per cent, which the group attributed to changing market conditions in China. However, car sales fell only 17 per cent.

Earnings per share tumbled 92 per cent to 1.45 cents from 19.24 cents. Directors are recommending an interim dividend of 0.5 cents.

Korea Development Bank offers $500m global

By Graham Bowley

The eurobond market saw a flurry of new issues in a variety of currencies yesterday, despite falls in government bond prices.

Korea Development Bank launched a $500m global offering of 10-year bonds amid volatile conditions in the dollar sector. The bonds, which were priced to yield 80 basis points over US Treasuries, were widely distributed, with Europe and the US each accounting for 40 per cent of sales and Asia for the remainder, lead manager CS First Boston said.

"There was some buying of the bonds by UK accounts and by Far Eastern investors looking to swap back into fixed-rate yen, for example," said one syndicate manager. "But the dollar sector is lethargic at the moment, with spreads widening across all maturities, and some investors were put off by the Korean political risk."

Most syndicate managers thought the bonds were fairly priced, although some said that some US accounts had been looking for extra yield for an issue of this size, which is small for a global offering.

In the D-Mark sector, the European Investment Bank launched a DM1bn offering of eight-year bonds fungible with an existing tranche of bonds issued in October 1992.

INTERNATIONAL BONDS

The issue, priced to yield 15 basis points over German bunds, was sold mainly to European institutional investors, lead manager Westdeutsche Landesbank said.

An official at the EIB said: "We expect this issue to be enough for us not to go back to the D-Mark market this year but it is very difficult to predict." The proceeds from the offering were not swapped out of D-Marks, he said.

Syndicate managers said demand for the bonds was slow. "The D-Mark sector is reviving but it is still difficult to push long-dated issues, especially after the recent pick up in supply," said one syndicate official.

The Kingdom of Belgium and the African Development Bank tapped the D-Mark sector earlier this week, and the World Bank is expected to launch a global D-Mark offering next week.

In the French franc sector, the Kingdom of Sweden launched a FFr2bn offering of fixed-rate two-year bonds, priced to yield 18 basis points over government bonds.

Lead manager Banque Paribas said 70 per cent of the bonds were sold to institutions and fund managers outside of France. "They bought them on an asset-swap basis, swapping the bonds into floating-rate French francs," it said.

The Republic of Iceland is expected to launch its debut euroyen offering soon, market sources said. The Y5bn to Y6bn *offering will be of five-year* bonds, they said.

Statkraft, the Norwegian state-owned electricity generator, is set to launch its debut eurobond offering over the coming weeks. The issue is likely to be a fixed rate D-Mark offering, of around DM300m, of five or 10-year bonds, lead manager Deutsche Bank said.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Korea Development Bank(a)	500	8.08#	100.00R	Oct.2004	0.30R	+80(7¼%-99)	CS First Boston
L-Bank	200	7.00	99.85R	Nov.1997	0.1875R	+10(6½%-97)	Swiss Bank Corp
Banco Bamerindus	100	11.00#	99.05R	Oct.1997	0.875R	+450(6¼%-97)	Salomon Brothers
Bk.of Tokyo(Curacao)Hldgs(b)‡	80	(b1)	100.15	Oct.2004	0.325	-	Bank of Tokyo Capl.Mkts.
Cheng Loong Co.(c)§	60	(2¼-2¾)	100.00	Oct.2001	2.50	-	Daiwa Europe
Grupo Imsa	50	10.00#	99.525R	Oct.1999	1.00R	+290(7¼%-99)	Citibank International
Metway Bank(d1)♦‡	25	(d3)	99.95	Apr.1996	undisc.	-	Chemical Investment Bank
Metway Bank(d2,s)♦‡	25	(d3)	99.95	Jun.1996	undisc.	-	Chemical Investment Bank
D-MARKS							
European Investment Bank(e)	1bn	7.50	100.66	Nov.2002	1.75	-	Westdeutsche Landesbank
JFM	150	7.75	100.12R	Oct.2004	0.325R	+25(6¾%-04)	Deutsche Bank
CANADIAN DOLLARS							
Daimler-Benz North America	100	8.75	99.994R	Nov.1999	0.30R	+15(7¾%-99)	Merrill Lynch International
FRENCH FRANCS							
Kingdom of Sweden	2bn	7.125	99.86	Nov.1996	undisc.	+18(8½%-96)	Banque Paribas
GUILDERS							
Crédit Local de France	200	6.75	99.65R	Nov.1997	0.1875R	+26(6¾%-97)	Rabobank Nederland
SWISS FRANCS							
KfW Intl.Fin., Delaware(f)♦	100	5.50	102.35	Aug.1998	1.375	-	Merrill Lynch Capl.Mkts.

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ♦Unlisted. §Convertible. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) Puttable on 8/10/99 at par. b) Amortises after 3 yrs at rate linked to Libor index. Clean-up call at 10%. b1) 3-mth Libor +50bp, max 10%. c) Pricing: 3/10/94. Callable after 4 yrs, subject to 140% hurdle, at 102% falling 1%pa to par. Provisional redemption premium to yield T+50bp to maturity. d1) Tranche A. d2) Tranche B. d3) 3-mth Libor +25bp. e) Fungible with DM1bn. No accrued. f) Fungible with SFr100m. Plus 90 days accrued. s) Short 1st coupon.

Trading reformed on Amsterdam SE

By Ronald van de Krol in Amsterdam

The Amsterdam Stock Exchange is scheduled to open an hour later than normal today to allow brokers, banks and jobbers to cope with wide-ranging reforms to the bourse's trading system.

When trading begins at 10:30am, the exchange will be split into retail and wholesale sectors for the first time, forcing the jobbers, known as "hoekmen" in Dutch, to adjust to a new role as market specialists along the lines of their counterparts on the New York Stock Exchange.

The stock exchange closed at noon yesterday, 4½ hours ahead of its normal closing time, to enable workmen to re-route telephone lines and also to give brokerage houses and jobbers the time to reprogramme their computer screens.

The Amsterdam reforms, introduced after years of debate and controversy, are designed to help the Dutch capital recapture trading in Dutch equities that has seeped over the years to London.

"We need and want to confirm our role as the price leader in Dutch equities," the exchange's chairman, Baron Boudewijn van Ittersum, said.

The changes will allow Amsterdam to retain its trading floor for retail orders, where transactions are based on matching supply and demand through a central auction system.

However, at the same time it will be trying to compete with Seaq International in London by introducing two screen-based systems for the new quote-driven wholesale market.

One of the screen systems will enable market-makers to advertise bid prices, the other will allow them to trade directly on screen. The new-style "hoekman" will be expected to act as an arbitrageur between the two systems and, effectively, link them together.

Mr van Ittersum said Amsterdam chose to launch the new system on a Friday so it could iron out any problems that developed over the weekend in time for Monday.

Eventually, once regulatory and other issues are resolved, foreign brokers and banks will be able to trade on the Amsterdam exchange from their bases in London or from other financial centres.

Invesco plans Dalian fund

By Bethan Hutton

Invesco, the international fund management group, is planning to launch a fund investing in Dalian, the port and industrial zone in north-east China.

Dalian established an economic and technical development zone 10 years ago, and has attracted more than 3,000 foreign enterprises. Last year it processed imports and exports worth more than $4.3bn.

Invesco Asia has signed a memorandum of understanding with the municipal government of Dalian to set up and manage a fund investing in about 25 unlisted companies in the region. Fund managers have so far narrowed a potential pool of 120 companies down to a short-list of 50.

The fund is mostly likely to take the form of a closed-end vehicle, possibly listed in Hong Kong, but that will depend on tax considerations.

US Treasuries fall on further signs of economic strength

By Frank McGurty in New York and Martin Brice in London

The yield on the long bond hit its highest point of the year yesterday morning as traders reacted to further signs of economic strength.

By midday, the benchmark 30-year government bond was $\frac{9}{32}$ lower at 95⅞, to yield 7.853 per cent. Earlier, the return had reached 7.87 per cent, a 1994 record. At the short end, the two-year note was down ⅛ at 99$\frac{29}{32}$, to yield 6.568 per cent.

The downturn followed the release of another set of data which could bring forward the next increase in short-term interest rates.

With the Federal Reserve believed to be poised to tighten monetary policy again, the Commerce Department reported that new home sales jumped by 9.7 per cent last month to an annual rate of 703,000, against an adjusted July pace of 641,000.

It was a reading that bodes poorly for the next round of first-tier reports, which may confirm that the economy is still accelerating.

The market is also growing anxious about the dollar, as the deadline for completing US-Japanese trade negotiations draws closer. Bond traders were disturbed after hearing of comments by Mr Fred Bergsten, director of the Institute of International Economics.

Mr Bergsten said the dollar could fall sharply against the yen if the talks collapse and the Clinton administration follows through on threats to impose retaliatory sanctions on Japan. Traders were worried that a confrontation over trade could stand as an obstacle to overseas buying of US government securities.

Meanwhile, a weaker dollar could aggravate inflation by making imports more expensive. That trend was already evident in yesterday's news that import prices climbed 0.6 per cent in August, while export prices were up 0.2 per cent.

GOVERNMENT BONDS

■ European government bond markets dipped yesterday, pulled down by the US Treasury market. The Bundesbank council's decision yesterday to leave key German interest rates unaltered was widely expected.

■ UK gilt prices slipped slightly in slow trading. Mr Ian Shepherdson, UK economist at Midland Global Markets, said: "It is a very quiet day – there is no news to move the market."

One feature which prompted some minor comment was the price at which a tranche of stock was removed from the market.

The tranche, £150m of 2½ per cent index-linked bonds due 2016, was sold at 137⅞. Some analysts pointed out that this was $\frac{1}{16}$ points above the price in the market.

Another £100m tranche of 2 per cent index-linked stock due 2006 was sold around the market price of 167$\frac{1}{16}$. The tranches were announced on August 25.

This week's 8½ per cent due 2005 auction stock fell from around 97⅞ to around 97$\frac{19}{32}$, to yield 8.83 per cent, a rise in yield of around 3 basis points on the day.

■ German bunds drifted through the morning and followed US Treasuries down in the afternoon, with the December bund future around 89.22 in late trading, down 0.35 points on the day.

According to Mr Christoph Anhamm, a bond analyst at Union Bank of Switzerland in Frankfurt: "The market is likely to continue in range-bound trading. Investors are waiting for the result of the election on October 16. Until then, sentiment will be very fragile."

Mr Anhamm pointed out that, while around a week ago the yield on the 10-year German bund was about 30 basis points above that of the comparable US Treasury, by yesterday it had moved to about 20 basis points below.

"Investors may have realised that the central banks are going in different directions," he added.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.000	09/04	92.6000	+0.590	10.20	10.10	9.37
Belgium		7.250	04/04	92.0000	-0.260	8.49	8.63	8.45
Canada *		6.500	06/04	84.5000	-0.350	8.93	9.04	8.76
Denmark		7.000	12/04	87.0700	-0.200	8.98	9.18	8.80
France	BTAN	8.000	05/98	101.5000	-0.130	7.48	7.56	7.24
	OAT	5.500	04/04	83.0600	-0.950	8.11	8.17	7.86
Germany Treu		7.500	09/04	99.4100	-0.450	7.58	7.63	7.30
Italy		8.500	08/04	83.8000	+0.110	11.36†	11.71	11.77
Japan	No 119	4.800	06/99	103.7990	-0.110	3.85	3.87	4.10
	No 164	4.100	12/03	97.0770	-0.410	4.55	4.50	4.73
Netherlands		5.750	01/04	88.5800	-0.280	7.50	7.59	7.32
Spain		8.000	05/04	82.1500	-0.600	11.09	11.26	11.08
UK Gilts		6.000	08/99	89-21	-9/32	8.54	8.75	8.28
		6.750	11/04	86-04	-4/32	8.84	8.91	8.44
		9.000	10/08	101-18	-5/32	8.80	8.86	8.49
US Treasury *		7.250	08/04	97-10	-17/32	7.64	7.55	7.20
		7.500	11/24	95-27	-20/32	7.86	7.78	7.48
ECU (French Govt)		6.000	04/04	83.2900	-0.200	8.63	8.82	8.41

London closing, *New York mid-day. Yields: Local market standard. † Gross (including withholding tax at 12.5 per cent payable by nonresidents). Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime		Treasury Bills and Bond Yields			
Prime rate	7¾	One month	4.52	Two year	6.55
Broker loan rate	6¾	Two month	4.74	Three year	6.85
Fed.funds	4⅞	Three month	4.87	Five year	7.25
Fed.funds at intervention	-	Six month	5.41	10-year	7.61
		One year	5.91	30-year	7.84

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	110.20	110.66	-0.34	111.24	110.82	122,536	122,271
Mar	110.46	110.14	-0.34	110.48	110.30	267	7,272
Jun	109.76	109.42	-0.34	109.76	109.76	2	354

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Oct	Calls Dec	Calls Mar	Puts Oct	Puts Dec	Puts Mar
110	-	2.30	2.40	-	1.10	2.16
111	1.40	1.80	-	0.14	1.50	-
112	0.85	-	-	-	-	-
113	0.56	-	-	2.14	2.63	-
114	0.32	-	-	-	-	4.38

Est. vol. total, Calls 19,597 Puts 22,227. Previous day's open int., Calls 242,697 Puts 328,134.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	89.54	89.18	-0.39	89.59	89.12	116922	146009
Mar	88.86	88.46	-0.40	88.86	88.56	119	1872

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Nov	Calls Dec	Calls Jan	Calls Mar	Puts Nov	Puts Dec	Puts Jan	Puts Mar
8900	0.90	1.23	1.00	1.40	0.72	1.05	1.56	1.92
8950	0.64	0.97	0.85	1.17	0.96	1.29	1.87	2.19
9000	0.44	0.74	0.67	0.97	1.26	1.56	2.18	2.49

Est. vol. total, Calls 5926 Puts 6216. Previous day's open int., Calls 220272 Puts 194662

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	100.25	99.98	-0.27	100.88	99.65	38163	64587
Mar	99.80	99.38	-0.30	99.80	99.80	150	735

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
9950	2.23	3.05	1.75	3.17
10000	1.95	2.81	1.97	3.43
10050	1.69	2.59	2.21	3.71

Est. vol. total, Calls 1092 Puts 3197. Previous day's open int., Calls 14444 Puts 22181

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	87.46	86.64	-0.76	87.55	86.50	48,709	71,253

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99-20	99-14	-0-11	99-31	99-07	55726	99415
Mar	-	98-26	-0-11	-	-	0	0

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
99	2-01	2-41	1-37	2-53
100	1-32	2-12	2-04	3-24
101	1-03	1-51	2-39	3-63

Est. vol. total, Calls 3481 Puts 1536. Previous day's open int., Calls 31958 Puts 33667

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	80.28	80.06	-0.22	80.28	80.00	803	8,919

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	98-23	98-26	+0-03	99-01	98-22	280,535	386,515
Mar	98-03	98-04	+0-03	98-11	98-00	2,419	22,041
Jun	97-15	97-16	+0-07	97-18	97-15	503	10,609

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	108.35			108.40	108.07	3536	0

* LIFFE contracts traded on APT. All Open Interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Thurs Sep 29	Day's change %	Wed Sep 28	Accrued interest	xd adj. ytd
1 Up to 5 years (24)	119.37	..	119.37	1.83	8.39
2 5-15 years (23)	137.33	-0.25	137.68	1.78	9.86
3 Over 15 years (8)	152.94	-0.22	153.27	2.03	9.81
4 Irredeemables (6)	174.92	+0.59	173.90	3.39	8.83
5 All stocks (61)	135.13	-0.15	135.34	1.87	9.42
Index-linked					
6 Up to 5 years (2)	184.59	+0.01	184.57	-0.05	5.07
7 Over 5 years (11)	172.04	+0.13	171.82	0.77	3.95
8 All stocks (13)	172.47	+0.11	172.27	0.69	4.04
Debentures and Loans					
9 Debs & Loans (78)	125.36	-0.15	125.25	1.82	8.86

Yields	Low coupon yield Sep 29	Sep 28	Yr. ago	Medium coupon yield Sep 29	Sep 28	Yr. ago	High coupon yield Sep 29	Sep 28	Yr. ago
5 yrs	8.73	8.71	6.26	8.82	8.78	6.58	8.96	8.94	6.73
15 yrs	8.72	8.69	7.09	8.88	8.82	7.23	9.06	9.03	7.44
20 yrs	8.65	8.64	7.19	8.86	8.82	7.26	8.92	8.91	7.46
Irred.†	8.72	8.77	7.32						

Index-linked	Inflation 5% Sep 29	Sep 28	Yr. ago	Inflation 10% Sep 29	Sep 28	Yr. ago
Up to 5 yrs	4.03	4.03	2.59	2.90	2.89	1.75
Over 5 yrs	3.88	3.90	3.16	3.70	3.71	3.01

Debentures and Loans	5 year yield Sep 29	Sep 28	Yr. ago	15 year yield Sep 29	Sep 28	Yr. ago	25 year yield Sep 29	Sep 28	Yr. ago
	9.86	9.84	7.81	9.79	9.77	8.13	9.73	9.71	8.26

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Sep 29	Sep 28	Sep 27	Sep 26	Sep 23	Yr ago	High*	Low*
Govt. Secs. (UK)	90.30	90.43	90.10	90.27	90.23	102.17	107.04	89.54
Fixed Interest	107.29	107.02	107.17	107.20	107.09	123.05	133.87	106.50

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Sep 28	Sep 27	Sep 26	Sep 23	Sep 22
Gilt Edged bargains	137.9	104.5	101.0	116.1	122.3
5-day average	118.4	107.1	113.8	114.3	112.6

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on September 29

U.S. DOLLAR STRAIGHTS — SWISS FRANC STRAIGHTS — YEN STRAIGHTS — OTHER STRAIGHTS — DEUTSCHE MARK STRAIGHTS — FLOATING RATE NOTES — CONVERTIBLE BONDS

	Issued	Bid	Offer	Chg.	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	1994 High	1994 Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest

Notes	Yield Int	Yield Red	Price £	+ or -	1994 High	1994 Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

COMPANY NEWS: UK

Forte leaps 62% to £60m

By Michael Skapinker, Leisure Industries Correspondent

Forte yesterday announced interim pre-tax profits ahead 62 per cent from £37m to £60m and issued its most optimistic assessment of future prospects in years.

Mr Rocco Forte, the hotel and restaurant group's chairman, said profits so far in the second half were well ahead of last year.

Mr Forte warned, however, that UK consumer confidence was still fragile and that there was little sign of a "feelgood factor". Much of the group's profit improvement was the result of an increase in corporate spending.

Forte's increase in half-year profits, which were above City expectations, comes at the end of a highly successful month.

In the past fortnight Forte has defeated its French rival Accor to win control of Meridien, the international hotel chain owned by Air France. It has also been granted a formal say in the management of the Savoy group, in which it holds a majority of shares but a minority of votes.

Colin Beere

Rocco Forte: second half profits so far well ahead of last year

Sales from continuing operations were up 7 per cent to £859m in the six months to July 31. The interim dividend was 2.75p, the same as last year, on earnings per share up 75 per cent to 4.9p. Dividend cover was 1.7, compared with 1 a year ago.

Mr Forte said, however, it was right to maintain the dividend at the halfway stage. He said: "We are in a recovery situation. Our dividend cover is not where it should be."

Profits from the worldwide hotels business rose 47 per cent to £66m (£45m) on sales up 8 per cent to £494m (£457m).

London hotels performed particularly strongly, with occupancies up 8 percentage points on last year. Achieved average room rates - the amount actually paid by guests rather than the hotels' official rates – rose 6 per cent.

Provincial hotels in the UK enjoyed a 6 point rise in occupancy, although average achieved room rate fell 1 per cent. In continental Europe occupancies rose 7 points but achieved room rates fell 4 per cent.

Forte's restaurants saw profits rise 13 per cent to £35m (£31m) on sales up 3 per cent to £322m (£313m).

The number of meals served at Little Chef, Happy Eater and Welcome Break fell slightly because of the weakness of leisure spending, the hot summer and disruption from roadworks. Average amounts spent rose, however.

Improvements to the Relais restaurant chain in France resulted in an increase in profits despite a fall in traffic on French autoroutes.

See Lex

Cowie expands bus fleet with £30m deal

By Tim Burt

Cowie Group, the car leasing and motor trading company, yesterday announced a big expansion of its bus operations with the £29.9m acquisition of Leaside Bus Company, the subsidiary of London Regional Transport (LRT).

The deal, involving a £25.5m cash payment and £4.4m to settle intra-group loans, will enlarge Cowie's bus fleet from 128 vehicles to more than 600 and is expected to lead to a fourfold sales increase.

"We paid slightly more than we wanted to, but it was worth it for the enormous growth that it promises," said Mr Gordon Hodgson, chief executive.

The acquisition follows four months of talks between LRT and Cowie, which has been seeking a larger stake in the London bus network for more than two years.

At present, the group's bus and coach operations are dominated by Grey-Green – acquired 14 years ago – which serves 13 bus routes in London and employs 450 drivers. Leaside, by comparison, has a workforce of about 1,800 and operates 28 routes.

Mr Hodgson, who is meeting Leaside managers today, said he was determined to introduce private sector efficiency to the business, which last year made profits of just £607,000 on turnover of £43m. In the same period, Grey-Green made profits of £1.6m on sales of £14.4m.

Cowie shares fell 3½p to 218½p yesterday – a new low for the year.

Bus market recovery helps Trinity rise 32% to £6.2m

By Christopher Price

A strong recovery in the UK bus market and firm demand from overseas operators helped Trinity Holdings, the specialist vehicle manufacturer, to increase first half pre-tax profits by 32 per cent to £6.25m (£4.76m).

The company said UK bus registrations, which have increased by 15 per cent in each of the last two years, rose more sharply in the first six months and were currently 25 per cent ahead of last year.

Trinity, which has 40 per cent of the new bus market, was helped by £33m of orders from Badgerline and Stagecoach.

Mr Geoff Hollyhead, chairman, said the average age of buses in the UK was 14 years, against nine years before the deregulation of the industry. Consequently there was plenty of scope for growth as operators renewed their fleets.

Mr Hollyhead added that with export demand also strong, the company was "on target to increase group output by 15 per cent this year and aim to continue that rate for the foreseeable future."

Significant orders had been received from the far east and forays had been made into the African market. A Malaysian joint venture was proving promising. Mr Hollyhead was confident that the overseas market would account for about 40 per cent of group turnover. "The developing countries want to build transport systems as good as in the west, the potential for expansion is enormous."

Turnover in the first half, increased by 14 per cent to £71.6m (£62.7m). Earnings advanced to 8.1p (6.2p) and the dividend was 2.25p (2.0p).

Trinity's order book for buses, refuse trucks, fire engines and airport maintenance vehicles, was up 15 per cent on the year at about £85m. Mr Hollyhead said the planned investment to increase production capacity would be met out of the £9m cash surplus.

● COMMENT

The premium rating attached to Trinity's shares after barely two years in the market would appear to be justified. Pre-tax profits of £7m in 1993 are likely to be nearly doubled in 1995. Earnings per share are forecast to grow from 10.7p to 16.9p in that time – the latter representing a p/e of 19.5. With the UK bus market recovering and overseas markets growing strongly, the management's forecast of 15 per cent organic growth per annum in the next few years is plausible. While this should help to guard against any downside, the shares may find it hard to maintain momentum.

Hopkinsons in red but interim held

By Andrew Baxter

Hopkinsons Group, the industrial abrasives and engineering concern, yesterday reported a first half pre-tax loss of £749,000, but is maintaining its interim dividend of 0.5p per share.

The loss for the six months to July 31 compared with profits of £722,000 a year earlier and reflected exceptional items of £1.36m.

Reorganisation of the bonded abrasives business produced a £1.5m charge, offset partly by a profit on the disposal of the drinks equipment business.

Before exceptional items, pre-tax profits fell by 15 per cent to £611,000. Operating profit overall declined by 9 per cent to £1.02m (£1.12m), but rose 37 per cent to £697,000 for continuing operations.

Sales rose from £51.7m to £53.8m.

Mr Bill Goodall, chairman, said progress had been made in implementing the company's strategic review. The sale of the drinks equipment subsidiary had realised cash proceeds of £5.1m and the reorganisation of the abrasives operations in Germany and the UK would be "well on the way to completion" by the end of the year.

After a tax credit of £401,000, there was a net loss of £348,000 (profit of £722,000). Losses per share were 0.45p (earnings of 0.91p).

On the outlook for abrasives, Hopkinsons said the German market was showing signs of recovery, albeit somewhat unevenly, while the UK market was improving steadily.

In the Bryan Donkin engineering business, South America and the Far East offered good prospects for growth in sales of gas controls and machinery.

Helical Bar jumps to £4m

By Simon London, Property Correspondent

Rents from properties acquired during 1993 enabled Helical Bar, the property investment and development company, to increase pre-tax profits from £2.22m to £4.02m in the half year to July 31.

Turnover advanced to £21.6m (£10.9m), with most of the increase coming from acquisitions. Mr Michael Slade, managing director, said Helical had bought little investment property during the period and had been concentrating on development projects.

Administrative expenses increased to £1.24m (£943,000) and net interest costs were £2.3m (£2.6m), including £590,000 of interest capitalised on development projects.

After tax of £835,000, earnings per share were 10.83p (10.89p) basic and 10.93p fully diluted. The interim dividend is increased from 2.5p to 2.75p.

During the first half Helical put in place £100m of new banking facilities, including an £85m 10-year borrowing facility. Since July, the company has agreed a further £20m seven-year facility at a fixed interest rate of 8.625 per cent.

Mr Slade said Helical now had £21m of cash and £45m undrawn banking facilities at its disposal to fund acquisitions of investment property and developments.

The company has agreed funding with investment institutions for five office and industrial developments, which should have a value of about £35m on completion.

A further three developments are planned, at Camberley in Surrey, Edinburgh and the City of London. Institutional funding for these schemes is being sought.

Earlier this week Helical formed a joint venture with former employees of retail group Sears.

Sherwood cuts losses to £88,000

By Alan Cane

Sherwood Computer Services made a loss of £88,000 in the first half of the year after redundancy costs of £412,000 and a contribution of £300,000 from an investment which has now been disposed of.

The results were in line with the board's and market expectations. The share price was down 4p at 101p.

The company made a pre-tax profit of £541,000 for the same period in 1993 but was £2m in the red at the year-end. It has restructured significantly over the past year, concentrating on software and services for the London insurance market, life assurance and pensions and investment services. With the sale of Consort Data, it has withdrawn from the investment management software market.

Turnover was £11.9m compared with £11.8m in the first half last year. Net debt has been reduced to £1.9m compared with £3.4m at December 31. Fully diluted earnings per share came in at 1.5p compared with 3.4p. The dividend is passed (1.75p).

Mr David O'Brien, chairman, said results from the life and pensions venture Sherwood International had been disappointing as many companies had yet to decide on their future systems. City Deal Services, however, offering an execution only stockbroking service, had 40,000 customers and was proving successful.

He said the restructuring was complete and the directors were confident of further recovery, adding that Sherwood would be dependent on increased sales towards the end of the year to meet its targets.

Brackenbridge chairman resigns as losses rise

The chairman of Brackenbridge, the USM-quoted bridal and formal wear company has, resigned after less than six months following disagreements over its future direction. The departure of Mr George Wardale, who took up the post on May 23, was "amicable", the company said.

Pre-tax losses for the year to March 31 soared from £1.57m to £8.39m. Almost £4m of the deficit was in respect of write-downs and provisions as part of its reorganisation earlier this year. Turnover slipped 12 per cent from £16.3m to £14.3m, including £2.46m (£3.05m). Losses per share were 35.3p (10.1p).

Mr Simon Raynand, the new chairman, said it was now accounting for retail turnover on a cash received basis rather than on business booked. Net assets had reduced substantially as a result.

North Sea Assets falls 64% and agrees sales

North Sea Assets, which services the offshore oil and gas industries, reported interim pre-tax profits 64 per cent down, at £432,000, compared with £1.19m, for the half year to June 30.

Turnover fell to £14.3m (£15.1m). Operating profits were halved at £704,000 (£1.43m) reflecting "competitive pressure on margins", said Mr Ted Kalborg, chairman.

Earnings per share fell 75 per cent to 0.58p (2.31p).

The company is selling Hydra-Lok, a subsea pile connection service, to Hunting Oilfield Services for £6m cash.

The company also announced a joint venture between its subsidiary Huntly Equipment Rental and Balmoral Group. The venture, to be known as Balmoral Marine, will be 20 per cent owned by North Sea Assets and 80 per cent by Balmoral Group.

NEWS DIGEST

Blockleys setback as shares dive

Shares in Blockleys, the maker of building products, dived 8p to 63p after pre-tax profits tumbled from £261,000 to £122,000 in the first half of 1994.

Turnover increased to £5.22m, against £4.75m.

Mr Brian Taylor, chairman, said margins had been under pressure because, following a stock reduction, bricks produced under a reduced output level and at higher cost, were now being sold.

Earnings per share came to 0.32p (0.71p) and the interim dividend was cut to 0.4p (0.5p).

Tullow Oil ahead

Tullow Oil, the Irish oil and gas exploration and production company, more than doubled profits from I£290,159 to I£628,027 (£622,000) for the first half of 1994. Turnover jumped 81 per cent to I£1.7m, compared with I£938,000.

Earnings per share doubled to 0.04p (0.02p). The company said its three producing areas in Senegal, the Czech Republic and the UK all performed well.

Linton higher

A recovery in its Malawi operations and the inclusion of results from British African Tea Estates, acquired in January, enabled Linton Park to report pre-tax profits up from a restated £5.49m to £6.06m in the half year to end-June.

The tea and coffee producer, importer and exporter, which also has interests in Scottish fishing, lifted turnover to £78.2m (£64.9m) including £6.99m from acquisitions.

The interim dividend is doubled to 5p, payable from earnings per share of 18.3p (20.3p).

Linton is ultimately owned by Lawrie Group.

MTL Instruments

MTL Instruments Group, USM-quoted maker of intrinsic safety equipment, saw pre-tax profits advance 15 per cent from £2.1m to £2.42m in the first half of 1994.

Turnover climbed 31 per cent from £10.7m to £14m. Excluding Transition Technology which was acquired in the second half of last year, sales were up 23 per cent.

Earnings per share increased to 8.6p (7.4p) and the interim dividend has been raised to 1.9p (1.7p).

European Leisure

The £2m costs of its financial restructuring completed at the beginning of this year left European Leisure with a pre-tax loss of £542,000 for the first half of 1994, against profits of £221,000.

On turnover of £66.1m (£68.4m), including £406,000 (£4.41m) from discontinued activities, operating profits fell from £8.02m to £7.13m reflecting a lower contribution from Maygay, the amusement machine manufacturer. Interest costs fell to £5.67m (£7.8m).

Losses per share were 0.11p, compared with 1.21p.

Geest sells two ships

Geest, the fresh and chilled foods group, has sold its two "Bay" class ships, for their book value of £9.1m and will use the proceeds to cut borrowings.

The two ships – the "Geestbay" and the "Geestport" – are more than 12 years old and will be replaced on the Windward Island route by more modern charter vessels, while options for more permanent replacements are reviewed.

Pochin's rises 64%

A fall in operating costs helped Pochin's, the building and civil engineering company, to report pre-tax profits 64 per cent ahead at £2.52m for the year to May 31, against £1.53m.

Turnover was £35m (£46.6m), of which £1.49m (£764,000) related to acquisitions. Earnings per share were 167.8p (100.2p) and the proposed final dividend is raised to 24p for a total of 32p (29p).

Watchdog fails to join Yorkshire Water board

By Simon Davies

City institutions yesterday overturned a victory by small shareholders of Yorkshire Water, who had overwhelmingly supported a proposal that Mrs Diana Scott, a former consumer watchdog, should join the board of directors.

Mrs Scott, former chairman of the Ofwat Yorkshire Region Customer Service Committee, contended that she had relevant experience to deal with the strident environmental and customer complaints expressed at yesterday's annual meeting.

She won support from a big majority of individual shareholders on a show of hands at a raucous meeting in Pudsey, West Yorkshire, attended by about 600 people.

However Sir Gordon Jones, Yorkshire Water's chairman, called for a poll, and institutions swung the vote, supporting the management decision to block Mrs Scott by a ratio of nearly 4:1. The votes cast against her election represented 82.3m shares versus 16.5m in favour.

Pensions and Investment Research Consultants, a pension fund consultancy, had backed the appointment of Mrs Scott because of concerns over Yorkshire's environmental record and the number of customer complaints. The local authority pension funds of North, South and West Yorkshire, as well as Humberside, are all understood to have voted in favour of Mrs Scott.

Diana Scott: cold water poured on her hopes of a board seat

Mr Stuart Bell, research director at PIRC, said: "It represents a clear moral victory. Given the overlap between shareholders and customers, this can also be taken as a reflection of customers' views."

Sir Gordon defended his company's record, saying: "Yorkshire's rivers have not been cleaner since the industrial revolution," claiming that half of the company's substantial investment programme was being spent on reversing decades of government neglect.

The number of complaints had fallen by 30 per cent in period between March and July, compared with a year earlier, although for 1993 as a whole complaints had bucked the downward national trend by rising 12 per cent.

He also stated that a £75,000 fine, over a burst sewage pipe, had been reduced to £15,000, which meant that Yorkshire was in the middle ranks for fines on polluting water companies instead of at the top, as stated by PIRC.

All the proxy cards sent to shareholders had "not recommended by the directors" stamped against Mrs Scott.

Sir Gordon claimed that "if we were looking for another non-executive director, we would want someone with international and big company experience." Mrs Scott's riposte was that the show of discontent had "demonstrated how important it is to have someone on the board with my expierience".

Construction side holds back Higgs and Hill to £0.65m

By Christopher Price

Tough trading conditions in the construction market restricted Higgs and Hill to a first-half pre-tax profit rise of just £125,000 to £650,000.

Turnover declined by 4 per cent to £120.2m (£125.5m).

Mr John Theakston, chief executive, said the company's strategy, which involved a £22.1m rights issue last May in order to bolster its building programme, would not benefit earnings until next year.

"We have moved from a retrenchment phase to a reinvestment phase in the company's development which will see the benefit in the years to come," he said.

While the construction order book rose by £30m to £200m compared with a year ago, margin pressure remained intense, with both subcontractor and supplier prices rising.

However, Mr Theakston said the company would retain its construction capacity: "We are a three-core business and intend to remain so. We need to have a good balance to the group's revenue stream."

He added that any future investment in the short term would be aimed at the property and housing businesses. These both saw a modest increase in activity in the first half, the latter boosted by the acquisition of 15 new sites, 10 bought from English China Clays.

The land bank increased by about 20 per cent to 2,000 plots with planning permission.

Earnings per share advanced 28 per cent to 0.9p (0.7p). The interim dividend is maintained at 1p.

Two City men die in Argentine plane crash

By Deborah Hargreaves

Mr Tim Wright, corporate finance director at Williams de Broë, the London stockbroking subsidiary of Banque Bruxelles Lambert, and Mr Adrian Finch, senior mining analyst, were killed yesterday when their plane crashed in Argentina.

Mr Wright and Mr Finch were in a charter plane that crashed at Cordoba airport after visiting a mining complex in Argentina, part of the North American mining group, American Resource Corporation. The plane is reported to have burst into flames just after take-off killing six people. Two survivors including the co-pilot are in a serious condition in hospital.

Among the dead were Mr Cameron Glover from American Resource Corporation and his son, Mr Saxon Glover.

Mr Wright who was 58 had been at Williams de Broë for 25 years. Mr Finch who was 44 had been the company's mining analyst for a year. The company said they had been on an important corporate finance review of American Resource's activities in Argentina.

Ruberoid up 3% to £2.2m

By Peggy Hollinger

Ruberoid, the roofing company spun off by Tarmac last year, yesterday announced a 3 per cent increase in interim profits, in spite of a sluggish UK construction market.

Mr David Watson, finance director, said the wettest spring in more than a century had delayed the completion of many contracts. In addition the long-awaited recovery in the UK construction market had been slow to materialise.

Cost-cutting and lower interest charges helped produce pre-tax profits for the six months to June 30 of £2.23m (£2.16m). Sales fell to £108m (£114m).

Mr Watson said Ruberoid was on track to meet full-year expectations, helped by the acquisition of a US business and the outstanding interest in a UK joint venture.

In the first half, Ruberoid cut some £500,000 from on-going costs and expects a further £500,000 in savings during the latter part of the year. A £300,000 charge was taken to pay for the rationalisation.

The dividend, Ruberoid's first interim payout since flotation, was 1.8p. Earnings were unchanged at 3.2p.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Blockleys ....int	0.4	Dec 5	0.5	-	1
Clarkson (H) ....int	0.75	Nov 24	0.75	-	1.75
Forte ....int	2.75	Dec 7	2.75	-	7.5
Garton Eng ....int	1.25	Dec 1	1.125	-	4.5
Helical Bar ....int	2.75	Nov 14	2.5	-	5.8
Higgs & Hill ....int	1†	Dec 1	1	-	2.5
Hopkinsons ....int	0.5	Nov 30	0.5	-	1.3
Intereurope ....fin	5.8	Nov 18	5.8	7.8	7.8
Linton Park ....int	5†	Nov 14	2.5	-	15
MTL Instruments§ ....int	1.9	Nov 10	1.7	-	4.1
New City & Cmmcl ....int	1.3	Nov 21	1.3	-	4.1
Pochin's ....fin	24	Dec 5	21	32	29
Redland ....int	8.25	Dec 5	8.25	-	25
Ruberoid ....int	1.8	Nov 25	-	-	1.8
Sherwood Comp § ....int	nil	-	1.75	-	1.75
Trinity Hldgs ....int	2.25	Jan 31	2	-	6.2
Waterford Foods ....int	1.25‡	Nov 17	1.19	-	2.83

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. ‡Irish pence.

Whitbread gets £27m for shares in brewers

By David Blackwell and Roderick Oram

Whitbread, the brewing, retailing and leisure group, yesterday folded the "Whitbread umbrella," its 40-year-old portfolio of stocks in regional brewers designed to protect them from takeover. The remaining shares in the portfolio were sold to a new investment trust for £27m.

The purchase by Lazard Brewers Investment Trust, launched yesterday by Lazard Brothers, attracted criticism, however, from some analysts. Instead of buying the shares at a discount typical in such transactions, the trust bought them at the market mid-price.

"Lazard is paying a very full price," one analyst said. If Whitbread had tried to sell the stake in each brewer in the market it would have probably received a lower price, he added. "A conventional placing would have got them less."

Mr Peter Rintoul, director of investment trusts at Lazard, said buying at the mid-point between the bid and ask prices was appropriate.

"As a long-term investor, we viewed the package in the round. The portfolio is well diversified by product and geography." Moreover, some of the stocks were not publicly traded.

If the trust had tried to buy the shares in the market, prices would have risen, he added. The portfolio bought yesterday includes shares in HP Bulmer, the cider maker and brewers WH Brakspear, Hardys and Hansons and Joseph Holt.

Whitbread had sold the bulk of its regional brewing shares in March for £225m in a "bought deal" with BZW. The shares sold yesterday had been omitted from that transaction because they were deemed to be harder to sell.

"The existence of the trust has been useful," Whitbread said yesterday.

Lazard is offering 125m ordinary shares at 25p and 25m warrants in units of five ordinary shares and one warrant at £5 a unit.

The trust will be managed by Mr Billy Whitbread, for the past five years investment manager of Whitbread Investment Company. Subscriptions close on October 22.

Mr Alan Perelman, Whitbread's finance director, said the sale would release capital for organic expansion.

"We continue to have excellent trading relationships with all the companies involved."

DTI says majority of dealings in call options were 'wholly abnormal'

S African leak in ConsGold bid run-up

By David Blackwell

Leaked information from South Africa led to insider trading in options on Consolidated Gold Fields shares ahead of the £2.9bn bid from Minorco in 1988.

That is one of the main conclusions of the Department of Trade and Industry report on the ownership of Consolidated Gold Fields, published yesterday.

The report, which runs to more than 600 pages before hitting lengthy appendices, and weighs almost 2 kilogrammes, finds nothing wrong with dealings in the shares. But it says that "the majority of dealings in ConsGold call options were wholly abnormal" in the run-up to the fiercely resisted bid from Minorco, 60 per cent owned by Mr Harry Oppenheimer's Anglo American Corporation-De Beers group.

By September 21, 1988, when the bid was launched, 81 per cent of the effective long position in call options was held by five investor groups. The inspectors – Philip Heslop QC and Richard Lewis, chartered accountant – "are in no doubt" that a leak about the bid took place in South Africa in mid-June at the latest.

Dealings on the London traded options market followed, first from Johannesburg, and then from London itself and elsewhere.

The five investor groups made profits of £11m on an initial outlay of about £5.5m. By far the biggest group, with 56 per cent of the call options in question, is known in the report as The Foundations.

This group operated via a Liechtenstein bank which placed its business through Savory Milln, a subsidiary of Swiss Bank Corporation – the lead financier to Minorco's bid. It made £4.26m from the options dealings, which were described by one expert as "kamikaze trading."

After inquiries which ranged round the world, including offshore banking centres such as the Cayman and Channel Islands, the inspectors were unable to identify the owners of The Foundations. But they are convinced that South African interests were closely involved.

"We consider that the South African authorities are best placed and perhaps the only people who can identify the beneficiaries of The Foundations' traded options deals," they conclude.

However, the report finds no evidence to suggest that the original leak was deliberate so far as Minorco, Anglo American, De Beers or the interests of the Oppenheimer family were concerned.

Minorco, which already owned 29.9 per cent of ConsGold ahead of the bid, is also found not to have had any undisclosed interests in its target. Neither was it under any obligation to make any disclosure under company law.

The inspectors assert that they have probably been able to ascertain more about the Oppenheimer family's interests, which they describe as historically "shrouded in mystery," than any previous inquiry.

While they were unable to verify the full extent of the interests, there was no evidence of any build up in ConsGold shares between December 1987 and May 1989, nor of "any destabilisation of ConsGold's share register which could be attributed directly or indirectly to the Oppenheimer interests."

The inquiry was originally prompted by ConsGold's public statement that the possible outcome of the bid had been crucially affected by the destabilisation of its share register, a month ahead of the bid.

French Connection lifted to £3.07m

By Peter Pearse

Improvements on the wholesale side and in the US and Hong Kong operations underpinned a 53 per cent pre-tax profits increase at French Connection in the six months to July 31.

The fashion clothing company, 75 per cent owned by Mr Stephen Marks, its chief executive, reported pre-tax profits of £3.07m (£2m) on turnover up 14 per cent at £34.7m (£30.6m). Shares eased 5p to 250p.

There will again be no dividend. Mr Nicholas Mather, finance director, said the holding company's balance sheet was still in deficit – £3.2m at January 31 – but he hoped the group would restart payments "sometime in 1995/96".

UK retail sales rose to £8.7m (£8m) from four concessions and 24 shops, up three on last time. Mr Mather thought it a "good performance compared to some competitors", adding that it had been a "tough summer on the high street". Margins were lower than last time.

Export sales to Europe, where the company had gone the wholesale rather than the retail route, had increased. In France, sales were flat at £1.4m but losses were reduced. In the US, sales were largely unchanged at £10.9m, but margins improved significantly.

Sales in the Far East of products sourced from Hong Kong rose to £2.6m (£1.6m).

Gross margins for the group improved 1.4 percentage points. Mr Mather pointed to careful risk management, especially on the buying side, and the benefits of forward cover on currencies, especially the Hong Kong dollar.

Operating profits climbed 39 per cent to £3.2m. Earnings grew to 10.6p (4.4p) per share.

High milk prices leave Waterford Foods lower

By John McManus in Dublin

Waterford Foods, Ireland's second-largest co-operative, reported a 16 per cent slip in interim pre-tax profits from I£11.4m to I£9.6m (£9.5m) because of high Irish milk prices and pressure on prices for cheese, Waterford's main product.

The strength of the punt, which has been near parity with sterling, also posed problems for the group, cutting into export margins.

Operating margins fell from 5.9 to 4.3 per cent while turnover was up 7.4 per cent to I£363m, with increased sales in all three operating divisions.

However, the group says it is confident of a better performance for the full year and has embarked on a rationalisation programme, aimed at cutting costs by I£12m, which analysts expect to result in a significant year-end provision.

As part of the restructuring Waterford is to close its dairy plant Didsbury and transfer production to its main plant at Hyde in Manchester with the loss of about 100 jobs.

Turnover in dairy products, including cheese, was up 4 per cent at I£171m. The consumer products division, including liquid milk and fresh products, reported a 10 per cent rise in turnover to I£145m.

Earnings per share dipped 25 per cent to 3.87p but the group is raising the interim dividend 5 per cent to 1.25p. Waterford shares closed 5p down at 80p.

Analysts are expected to trim full-year profits forecasts from I£28m to I£22m taking account of the restructuring provision.

Flextech £9m in loss after 'eventful' half year

By Raymond Snoddy

Flextech, the new media group which has expanded rapidly as a provider and manager of cable and satellite television channels, announced a pre-tax loss of £9m for the six months to June 30.

Turnover at the USM-quoted former oil services company amounted to £7m. The £9m loss – including start-up costs of new satellite channels – compares with a £3.2m deficit, although since then the company has changed beyond recognition.

The main developments have included:

- A majority stake has been taken by TCI of Denver, the largest US cable operator.
- The programming assets of United Artists European Holdings, a subsidiary of TCI, have been integrated with Flextech's.
- A 20 per cent stake has been bought in HTV, the ITV company for Wales and the west of England.
- Flextech has a 30 per cent stake in the Dow Jones plan to launch The European Business Channel early next year.

With a touch of understatement, Mr Stanislas Yassukovich, chairman, said that the first half of 1994 had continued to be eventful.

The company said yesterday that when The Learning Channel joined the Sky Multi-Channels package on October 1 Flextech would contribute "eight out of 16 channels marketed as the Sky Multi-Channels Package".

Losses per share amounted to 11.81p (6.68p). The retained loss totalled £9.6m.

NEWS DIGEST

Carlton Comms in $21m sale

Carlton Communications is selling Immix to Scitex Corporation for $21m (£13m). Immix, which supplies video editing equipment, reported operating losses of $1.7m on sales of $7.3m in the six months to March 31.

Immix was a start up company within Carlton's video and sound division set up to develop the editing technology aimed at the smaller end of the market including in house corporate videos and independent production companies.

Scitex, the Israel-based company which makes electronic pre-press systems, approached Carlton as it wanted to get into the market. The price, which Carlton said offered a fair profit on its investment, was thought acceptable for a company which was considered to be on the edge of the division's activities.

Garton slips midway

Pre-tax profits at Garton Engineering, the components and special fasteners maker, slipped from £197,000 to £170,000 in the first half of 1994.

The result included the gain on land surplus to requirements following the fire in December 1990.

Turnover improved from £10.2m to £12.2m. The interim dividend is lifted to 1.25p (1.125p), payable from earnings of 2.99p (3.41p) per share.

SWP advances 31%

SWP Group, the USM-quoted maker of specialist components for the construction industry, increased pre-tax profits by 31 per cent from £170,000 to £222,000 in the year to June 30.

Sales from continuing operations jumped to £8.78m (£1.08m). But raw materials and consumables took £4.43m (£488,000) and staff costs surged to £2.46m (£509,000). Interest charges fell to £136,000 (£144,000).

Earnings per share came to 0.6p (0.5p).

Stylo lifts margins

The favourable summer weather and improved margins helped Stylo, which owns the Barratts chain of shoe shops, to report an interim profit "for the first time in many years."

Sales rose by 25 per cent from £50.7m to £63.3m and operating profit jumped from £574,000 to £2.84m. The pre-tax profit of £504,000 compared with a loss of £1.85m.

Earnings per share were 2.37p (9.43p deficit).

Donelon Tyson

Donelon Tyson, the construction group, suffered pre-tax losses of £324,000 for the six months to June 30, compared with profits of £439,000. The result, however, was an improvement over the £2.57m deficit at December 31.

The company said most of the first-half losses were sustained in the joinery division, which is to be discontinued this year.

Turnover rose from £34.5m to £45.8m. Losses per share were 1p (0.7p earnings) and there is no interim dividend.

Horace Clarkson

Mixed fortunes in the bulk shipping markets resulted in a fall in pre-tax profits at Horace Clarkson from £2m to £1.3m in the six months to June 30.

Sales declined to £19.6m (£22.8m) including £13m (£16.6m) from shipbroking. Profits from this source were halved to £1.1m.

The interim dividend is maintained at 0.75p from earnings per share of 2.5p (4.3p).

Kynoch in red

Following a loss in the second half of 1993, Kynoch Group, maker of healthcare equipment, incurred a pre-tax deficit of £57,000 for the six months to June 30. This compared with a £126,000 profit last time, which had turned into a £644,000 loss at the year end.

Mr John Salkeld, chairman, said he expected the group to return to profitability in the second half.

Turnover came to £7.06m (£7.08m on continuing operations). Losses per share were 0.4p (0.3p earnings).

Intereurope falls

Intereurope Technology Services, the technical publishing and support services group, reported pre-tax profits down sharply from £1.16m to £405,000 for the year ended June 30, after charging exceptional costs of £421,000 this time.

The exceptionals related to the technical documentation side which had suffered difficult trading conditions.

Turnover, including acquisitions, totalled £8.77m (£9.4m). Earnings per share declined from 13.61p to 3.94p, but the dividend has been held at 7.8p with a same-again 5.8p final.

Speciality Shops

Speciality Shops, the shopping centre management company which came to the market in May, reported pre-tax profits of £602,000 for the six months to June 30, against losses of £71,000.

The result was after £916,000 of provisions against properties which have been written back.

Turnover was £2.04m (£4.34m) reflecting lower property sales of £100,000 (£2.4m). Earnings per share were 5.58p (0.11p losses).

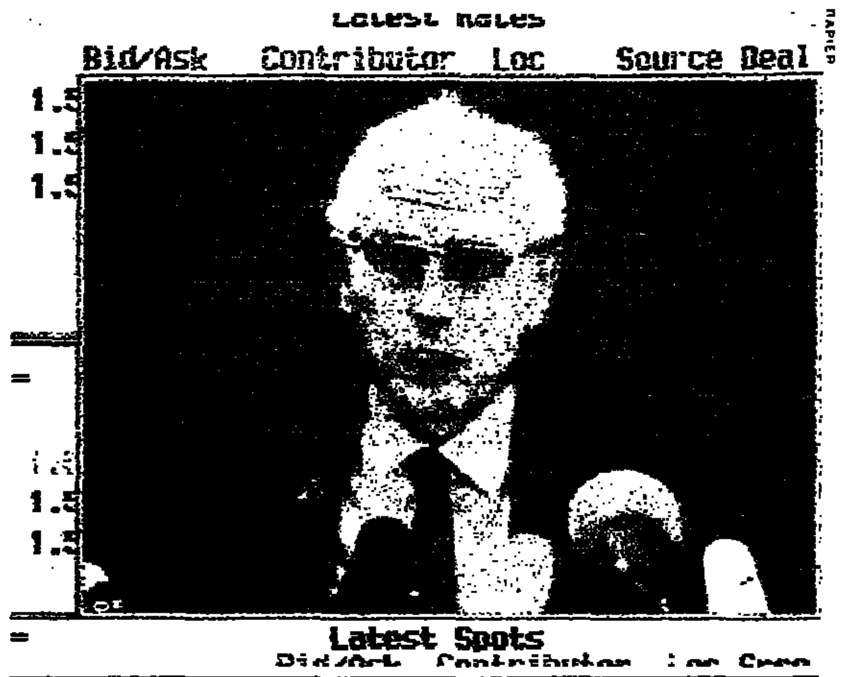
Radiotrust progress

Net asset value at Radiotrust came to 72.7p at the end of the half year to July 31, against 73.1p at January 31 1994 and 48.6p at the end of the previous first half.

In the six months under review net profits jumped to £26,160 (£10,662). Earnings per share were 0.3p (0.12p).

Jean-Claude Trichet – France

Antonio Fazio – Italy

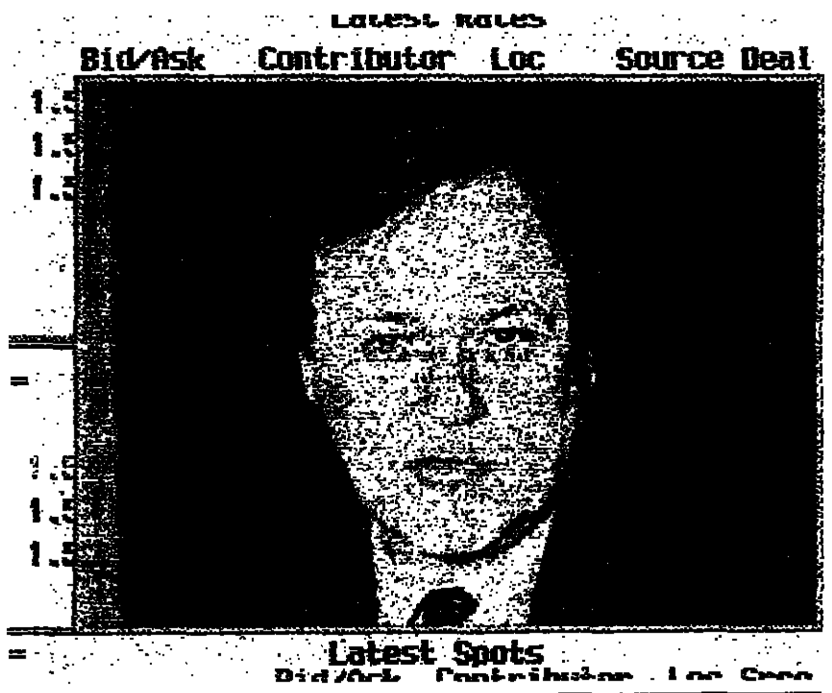


Hans Tietmeyer – Germany

Maria Schaumayer – Austria

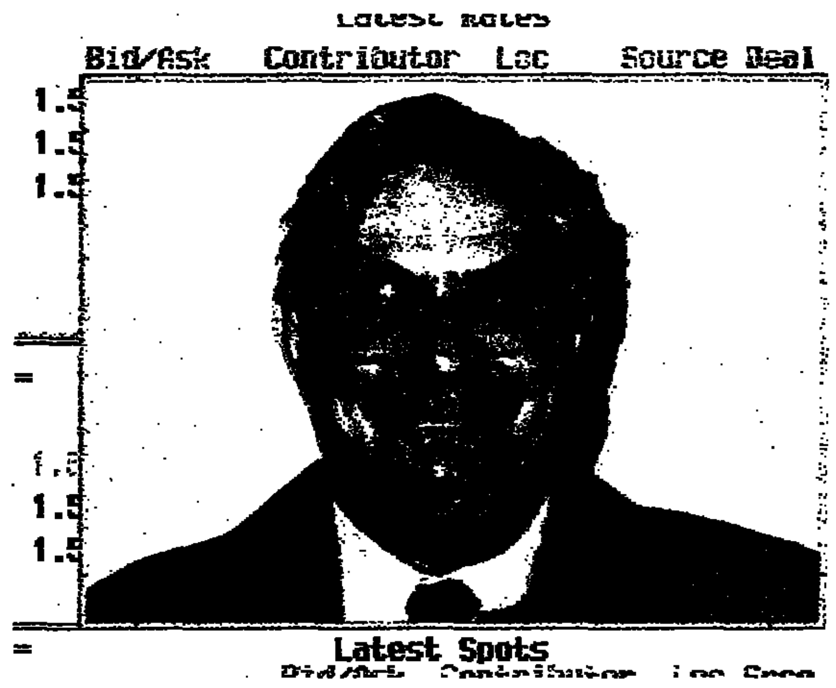
Alan Greenspan – U.S.A.

Yasushi Mieno – Japan



Urban Backstrom – Sweden

Eddie George – U.K.



Alfons Verplaetse – Belgium

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COMMODITIES AND AGRICULTURE

Australian uranium mining curbs to stay

By Nikki Tait in Sydney

There will be no immediate relaxation of Australia's constraints on uranium mining, and the issue has been referred to the ruling Australian Labour Party's national executive for consideration in three years' time.

The sidestep, which was agreed yesterday at the ALP's national conference in Hobart, follows a week of uncertainly as advocates of a more liberal uranium policy sought to secure support for the opening of new mines.

The ALP has a long-standing policy of restricting uranium mining to three sites. However, one of these mines is now worked out, and a second is approaching exhaustion. This situation, coupled with the desire of some Aborigine representatives to see uranium mining expanded in the Northern Territory, led to serious speculation that a change in policy could be agreed.

Throughout the week, it had been touch-and-go whether pro-mining supporters could raise enough votes from delegates to the conference. On Wednesday night, many political commentators thought they had achieved the objective, although any new mine would have been bound to employ union labour – a condition designed to penalise CRA, the Australian mining group, which has been seeking to employ workers on individual staff contracts.

Yesterday morning, however, a number of Victorian and Queensland delegates shifted in favour of the *status quo*. Last night, Mr Brian Ede, the Northern Territory opposition leader who had pushing hard for a change, estimated that – had the matter gone to a vote – 48 delegates would have been in favour of a change, compared with 54 against.

Australia is reckoned to have about 30 per cent of the western world's low-cost uranium reserves but produces only about 10 per cent of the western world's supply. The two projects that are operating under the three-mines policy are Olympic Dam, owned by Western Mining Corporation, and Ranger, belonging to Energy Resources of Australia.

Had policy been relaxed, projects most likely to go ahead would have included Koongarra and North Ranger/Jabiluka, both in Northern Territory. However, given the current low level of uranium prices, analysts believed that most mining companies would have been in no rush to open up new mines, although they added that there was a fair chance that additional projects would have come on stream over the next decade.

Last night, ERA said it was extremely disappointed at the ALP's decision to retain the *status quo*. It said that, in conjunction with Aborigine owners, it would approach the government between conferences and continue to push for the development of new ore bodies.

"In the interim, ERA will continue to develop its existing deposits on the Ranger lease as the market recovers. However, this may mean that we will have to supplement our production with overseas purchases if we experience production limits in a buoyant market," it commented.

CAP report sends tremors through Brussels

Lionel Barber examines a controversial proposal for wholesale farm policy reform

A minor earthquake *erupted in Brussels* yesterday. The European Commission released an independent study which recommends wholesale reform of the Common Agricultural Policy, including scrapping farm production quotas and set-aside payments to farmers.

The commission's decision to publish and be damned breaks a Brussels taboo on talking about further CAP reform. Not everyone, it seems, is satisfied with the present step-by-step changes in the policy, which consumes half of the EU's Ecu70bn (£55bn) annual budget.

The question is whether the 200-page report – called EC Agricultural Policy for the 21st Century and drawn up by a group of independent agricultural experts from Belgium, Denmark, France, Germany, Greece, Sweden and the UK – is destined to gather dust on an academic shelf, or whether it signals the start of a fresh debate about the future of the CAP, which many believe is inevitable if the EU is serious about enlargement to the farm-intensive economies of central Europe.

This week, the commission made clear that it does not endorse the report's conclusions. Mr Bruno Dethomas, chief spokesmen, noted that the EU was still digesting the *1992 McSharry reforms*, which moved the CAP away from price support to direct income support for farmers as an incentive to reduce rampant overproduction. To embark on reforms every 18 months would be "masochistic", he said.

This echoes the standard line from DG6, the agriculture directorate, which has held an iron grip on the CAP since its inception. What is now clear is that officials in DG2 – the economics and financial directorate – used the device of commissioning an independent study as a means of breaking this grip and stimulating debate.

The report's authors – who include Mr Arne Larson, a former *chef de cabinet* to Mr Finn Gundelach, a celebrated Danish vice president of the European Commission in the 1970s – are careful to avoid repeating the familiar Anglo-Saxon criticism of the CAP as an expensive racket designed to coddle Europe's farmers, coupled with ritual calls for EU prices to fall to world levels.

Though the report is merciless in exposing the inefficiencies of the present system, its new element turns on the application of "subsidiarity" – the principle of devolving decision-making to the lowest appropriate national and regional level, which is enshrined in the Maastricht treaty – to agricultural policy.

Thus, the authors recommend that EU farm subsidies *should be phased into national* budgets over seven to ten years. Member states – not Brussels – would assume *responsibility for direct income* supports, a move that the authors argue is a logical extension of the McSharry reforms.

Second, those countries suffering heavy penalties through loss of EU financial aid could be compensated through increased contributions from the regional, social and "cohesion" funds, which are set up to assist poorer areas.

The most serious objection is that "renationalisation" of agriculture would encourage even more cheating by member states and ultimately destroy the single market. But the authors' have an answer: a reinforced competition policy to monitor state aids.

Their idea is to create a new "common organisation" that would involve member states producing multi-annual plans for direct income supports to farmers, to be discussed and approved in the Council of Ministers – a little like the present arrangements for monitoring the use of structural funds or regional aid.

The time-bomb ticking here, of course, is that the new mechanism would signal a further diminution of the European Commission as supra-national authority. But again the authors propose a sweetener.

"*For a CAP reform proposal* to be adopted, it is important that the distribution of costs and benefits between member states does not dramatically change as a result of its implementation, and that it is perceived in each member state not to do so."

Second, member states would "in general" be free to provide compensation based on historical levels of production because such payments do not provide an incentive to increased production, according to the report.

Third, the report acknowledges that certain rural communities are still highly dependent and vulnerable, and therefore should receive aid on the same basis as other sectors in remote areas or countryside.

Despite these reassurances, the report can expect rough handling from Europe's farm lobby, particularly in France. Moreover, member states could expect to contribute hefty amounts of money from their national budgets in the initial phase of the reforms because of the need to support market prices.

However, the report predicts that price developments over the next few years will lead to cereal prices approaching world prices quite closely, so that no set-aside may be needed to comply with the Gatt Uruguay Round – a prediction widely voiced by CAP reformers in 1992.

Perhaps the most telling *message in the report is the* need for the EU to prepare for the next round of enlargement to central and eastern Europe.

"The CAP in its present form is not only a complication to the development of free trade with eastern Europe, it would also be a source of great difficulty to any eventual attempt by the EU to honour its commitment to take the Czech republic, Slovakia, Hungary and Poland into membership."

So far, the commission has approached the relation between the CAP and enlargement with great care. Earlier this year, another independent study chaired by Mr Henri Nallet, a former French farm minister, and Mr Adrian van Stolk, a Dutch authority on trade and agriculture, proposed setting up a new system to help support stable farm prices in eastern Europe at near world price levels. It warned that falling prices would lead to a dangerous lack of investment and access to credit.

Some officials and diplomats in Brussels believe that the approach of the CAP's extension eastwards is merely postponing the hard decisions and storing up political trouble. Hence the need for what one eastern European diplomat calls a "Copernican revolution" – a radical rethink of the principles and operation of the policy.

This week's report will appear in the next issue of European Economy, the commission's *economics journal*.

Whatever its future, it has at least started the ball rolling.

MARKET REPORT

Copper support level breached

Technical selling of COPPER was triggered at the London Metal Exchange after the breaching of support at $2,550 a tonne for three months delivery and a short-term trend line at $2,540. By the close of afternoon ring trading the price had reached $2,530.75, down $37.75 on the day, but some of the loss was recovered in after hours activity.

"The break below $2,550 sparked stop-loss selling and long liquidation before some covering and bargain hunting emerged to halt the decline," one dealer said.

Other LME metals came off the boil in line with copper but appeared to be finding some underlying support.

The GOLD price ended 50 cents down at $395 a troy ounce at the London bullion market after bouncing off solid support at $394.

Russia's state Precious Metals Committee yesterday disowned Wednesday's statement by one of its senior officials that the country planned to stop exporting gold. But the statement, which initially prompted a sharp fall in the price, had already been largely discounted in the market.

"Russia's presence on world gold markets has a long tradition and it is very stable," said Mr Leonid Gurevich, a deputy chairman of the committee.

London Commodity Exchange COFFEE futures ended down but off day lows after roaster buying helped cushion the effects of arbitrage selling linked to a slide in New York.

The November position closed at $3,891 a tonne, down $90, after touching $3,880 at one point.

"There has been good arbitrage selling all day and yet the market has held up really well," one trader commented. The Brazilian weather factor had moved into the background for the time being, others said.

Compiled from Reuter

Russian organisation seeks role in aluminium revolution

By Kenneth Gooding, Mining Correspondent

The Vami Institute, the St Petersburg-based organisation that designed all the former Soviet Union's aluminium smelters, is making a determined attempt to play an important role in the coming revolution in the Russian aluminium industry.

Several western aluminium companies are jockeying for positions in the Russian industry, which needs to replace or substantially refurbish its smelters. It seems possible that some western money will be available for this purpose following the recent trade agreement between the European Union and five big aluminium-producing countries which involved Russia agreeing to cut output. The Russian smelters are also expected to develop *downstream fabricating activities* so that Russia will consume more of the aluminium it produces.

Vami, privatised in 1992, has appointed a new director, Mr Valery Lankin, and he has set his sights on establishing long-term arrangements with western groups. To this end, Vami is shortly to set up offices in New York and London.

Mr Igor Platonov, Vami's foreign affairs director, said: "All *the CIS smelters were built to* our designs and all western companies need to consult with us if they intend to do work at the smelters." Vami had already been invited to take part in smelter refurbishment schemes by two US companies, Kaiser Aluminum and Reynolds Metals and been contacted by Pechiney of France.

As the sole aluminium technical establishment in the former Soviet Union, Vami has some of the most up-to-date *equipment in the world*. Mr Platonov said it intends to offer some of its new technology to western companies – including that for composite materials, aluminium powders, very high purity aluminium, the production of alumina from very low quality bauxite and the production of magnesium from different sources.

Vami now has just over 1,000 employees, down from 2,200 four years ago. *Employees now* own 31 per cent of the institute *and the central government* intends soon to sell its remaining 20 per cent by auction.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1595-6	1619-20
Previous	*1606-7*	*1631.5-32.0*
High/low	1603	1628/1615
AM Official	1602.5-3.0	1627.5-8.0
Kerb close		1615-6
Open int.	249,878	
Total daily turnover	41,042	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1645-55	1660-70
Previous	1655-65	1675-80
High/low		1670/1665
AM Official	1655-60	1670-5
Kerb close		1655-65
Open int.	3,080	
Total daily turnover	104	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	624-5	638-9
Previous	632-3	646-7
High/low	630	646/639
AM Official	629.5-30.0	643.5-4.0
Kerb close		641-2
Open int.	40,692	
Total daily turnover	3,844	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	*6415-25*	*6515-25*
Previous	6445-55	6545-50
High/low		6580/6465
AM Official	6450-55	6550-55
Kerb close		6470-5
Open int.	68,791	
Total daily turnover	12,531	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5310-15	5390-5
Previous	5340-50	5425-30
High/low		5420/5385
AM Official	5335-40	5415-18
Kerb close		*5380-5*
Open int.	16,331	
Total daily turnover	3,865	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1007.5-8.5	1030-1
Previous	1018-9	1042-3
High/low		1042/1030
AM Official	1015-6	1038.5-9.5
Kerb close		*1031-2*
Open int.	97,729	
Total daily turnover	9,614	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2518-9	2530.5-1.0
Previous	2558.5-9.5	2568-9
High/low		2563/2522
AM Official	2541-2	2551-2
Kerb close		2530-1
Open int.	213,170	
Total daily turnover	60,627	

■ LME AM Official £/$ rate: 1.5765
LME Closing £/$ rate: 1.5808

Spot:1.5798 3 mths:1.5784 6 mths:1.5753 9 mths:1.5696

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	low	Open int	Vol
Oct	117.60	-2.00	118.80	117.20	2,197	287
Nov	116.40	-1.95	116.70	116.70	754	53
Dec	*116.15*	*-1.85*	*117.45*	*115.60*	*42,215*	*2,041*
Jan	115.80	-1.85	117.00	117.00	565	75
Feb	115.35	-1.80	-	-	480	65
Mar	114.95	-1.75	116.00	114.50	5,516	532
Total					57,485	3,298

PRECIOUS METALS

■ *LONDON BULLION MARKET*
(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	395.25-395.75	
Opening	*394.10-394.50*	
Morning fix	394.50	250.285
Afternoon fix	395.70	250.776
Day's High	396.10-396.50	
Day's Low	394.00-394.40	
Previous close	395.25-395.75	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....4.50 6 months 4.83
2 months ....4.57 12 months 5.18
3 months 4.62

Silver Fix	p/troy oz.	US cts equiv.
Spot	356.65	562.25
3 months	361.60	569.50
6 months	367.30	577.05
1 year	381.35	594.75
Gold Coins	**$ price**	**£ equiv.**
Krugerrand	396-399	251-253
Maple Leaf	406.80-409.35	-
New Sovereign	92-95	58-60

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Oct	395.2	+0.7	395.9	394.3	-	-
Nov	396.9	+0.8	-	-	4,023	1,561
Dec	398.7	+0.8	399.5	397.6	-	-
Feb	*402.0*	*+0.8*	*402.7*	*401.5*	*108,992*	*41,606*
Apr	405.5	+0.8	406.0	405.0	19,737	488
Jun	409.0	+0.8	409.7	408.7	7,627	219
Total					184,321	46,874

■ *PLATINUM NYMEX (50 Troy oz.; $/troy oz.)*

	Sett price	Day's change	High	Low	Open int	Vol.
Oct	419.5	+1.6	419.5	417.5	3,540	2,769
Jan	423.5	+1.6	423.5	422.0	15,873	2,784
Apr	426.7	+1.6	427.0	425.0	2,484	124
Jul	430.2	+1.6	-	-	474	1
Oct	432.9	+1.6	435.0	435.0	329	-
Total					22,700	5,678

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Sep	155.10	-	-	-	21	-
Dec	152.90	-1.75	153.50	152.00	4,888	266
Mar	153.70	-1.95	154.25	153.00	1,236	13
Jun	154.80	-1.95	-	-	152	-
Total					6,297	279

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol.
Oct	563.7	+3.4	558.0	558.0	89	68
Nov	565.0	+3.5	-	-	6	-
Dec	568.5	+3.5	571.0	560.0	93,794	27,874
Jan	571.1	+3.6	572.0	569.5	44	-
Mar	577.1	+3.6	579.0	570.0	10,573	606
May	*583.7*	*+3.8*	*582.0*	*577.5*	*4,533*	*33*
Total					121,333	28,640

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Nov	18.04	+0.36	18.04	17.65	86,877	35,823
Dec	18.04	+0.24	18.10	17.76	69,061	22,586
Jan	*18.14*	*+0.24*	*18.16*	*17.94*	*42,877*	*5,980*
Feb	18.18	+0.24	18.18	17.99	22,344	2,494
Mar	18.23	+0.22	18.20	18.00	18,716	3,101
Apr	18.15	+0.14	18.15	18.05	14,182	1,694
Total					389,132	80,205

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Nov	16.72	+0.19	16.82	16.55	64,250	21,887
Dec	16.79	+0.16	16.89	16.67	45,305	9,621
Jan	16.88	+0.17	16.90	16.76	15,396	2,412
Feb	16.87	+0.18	16.87	16.74	7,709	1,996
Mar	*16.85*	*+0.17*	*16.86*	*16.72*	*5,627*	*605*
Apr	16.77	+0.09	16.77	16.70	1,614	85
Total					147,815	37,408

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Oct	49.25	+0.92	49.45	48.40	12,121	9,520
Nov	50.30	+1.19	50.30	49.15	37,767	9,917
Dec	51.30	+0.97	51.40	50.40	42,291	4,892
Jan	52.05	+0.75	52.05	51.35	30,765	1,932
Feb	52.30	+0.45	52.40	52.10	15,852	428
Mar	52.30	+0.70	52.30	51.80	12,610	1,106
Total					179,448	30,927

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	152.50	+2.50	153.75	151.25	28,831	5,277
Nov	155.75	+3.25	156.25	153.75	20,372	4,336
Dec	158.25	+3.25	159.25	156.25	21,385	4,349
Jan	160.25	+3.50	160.75	158.25	14,810	2,081
Feb	161.00	+3.00	161.00	158.75	5,781	911
Mar	160.75	+2.50	161.00	159.00	5,904	1,643
Total					106,047	18,838

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Open int	Vol
Nov	1.695	-0.007	1.730	1.690	31,131	6,494
Dec	1.985	-0.015	2.015	1.980	30,283	1,656
Jan	2.060	-0.013	2.090	2.060	16,329	931
Feb	1.980	-0.008	2.000	1.985	14,676	799
Mar	1.940	-0.003	1.955	1.940	11,403	470
Apr	1.905	-0.002	1.915	1.905	6,840	256
Total					152,319	11,929

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Oct	45.65	+1.18	45.95	44.40	7,839	11,209
Nov	46.20	+1.37	46.50	44.80	27,412	9,397
Dec	54.30	+0.72	54.80	53.60	13,413	3,005
Jan	54.10	+0.70	54.15	53.50	8,485	2,058
Feb	54.30	+0.45	54.30	54.10	3,943	981
Mar	55.25	+0.50	55.25	55.25	1,453	288
Total					71,117	28,393

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	106.05	-0.30	106.10	106.00	39	-
Jan	108.25	-0.35	108.30	108.25	2,470	45
Mar	110.25	-0.45	110.35	110.25	1,925	34
May	*112.35*	*-0.40*	*112.60*	*112.40*	*1,244*	*22*
Jul	114.50	-0.20	114.55	114.55	1,368	19
Total					7,294	125

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	388/4	-0/2	389/4	385/0	47,941	14,169
Mar	397/2	-0/4	397/6	393/6	18,828	2,976
May	383/0	-1/2	384/0	380/4	2,661	300
Jul	353/0	-1/4	353/4	350/6	5,289	1,416
Sep	356/5	-0/6	356/6	355/4	116	27
Dec	365/6	-0/2	-	-	84	-
Total					75,121	18,888

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	214/6	-	215/0	214/0	136,308	19,148
Mar	224/4	-0/2	224/6	223/6	46,127	6,544
May	232/4	-	232/4	231/6	18,039	1,731
Jul	237/0	-	237/0	236/4	18,877	1,728
Sep	240/6	-	241/0	240/2	1,220	48
Dec	244/6	-	245/0	244/4	7,150	381
Total					15,349	1,320

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	103.90	-0.10	-	-	2	-
Jan	106.00	+0.25	-	-	485	-
Mar	108.00	-	-	-	410	-
May	*109.65*	-	-	-	*125*	-
Total					1,066	-

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	543/6	-4/6	547/6	543/4	78,052	21,843
Jan	553/6	-4/6	557/6	553/2	21,549	4,191
Mar	564/0	-4/4	567/4	563/4	12,813	1,984
May	571/2	-3/6	574/6	571/0	6,222	882
Jul	577/2	-3/4	580/6	577/0	12,031	950
Aug	*578/4*	*-4/0*	*580/0*	*578/4*	*271*	*22*
Total					135,547	30,349

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	25.26	-0.25	25.43	25.25	13,903	4,913
Dec	24.34	-0.28	24.58	24.33	38,770	7,887
Jan	24.08	-0.23	24.26	24.08	9,145	1,640
Mar	23.78	-0.22	23.97	23.77	9,055	1,700
May	23.57	-0.16	23.73	23.56	5,666	679
Jul	23.35	-0.18	23.55	23.35	4,488	1,086
Total					82,917	18,435

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	163.1	-1.6	164.2	162.9	4,758	10,762
Dec	163.3	-1.4	164.4	163.2	5,180	44,511
Jan	164.7	-1.8	166.3	164.6	1,489	11,229
Mar	168.3	-1.8	170.0	168.2	1,316	10,785
May	171.1	-1.6	172.8	171.0	277	6,034
Jul	174.1	-1.6	175.4	174.0	443	4,113
Total					88,893	13,892

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	150.0	-	-	-	-	-
Mar	105.0	-	-	-	-	-
Apr	225.5	+4.0	226.0	222.5	1,243	108
May	240.0	-	-	-	-	-
Jun	107.5	-	-	-	-	-
Total					1,243	108

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	1627	+1	-	-	223	-
Oct	1705	+15	1710	1696	699	-
Nov	1686	+11	1689	1676	285	108
Jan	1625	+8	1627	1625	730	82
Apr	1625	+5	1705	1625	418	131
Jul	1443	+3	-	-	107	6
Total					2,472	327

	Close	Prev
BFI	1640	1626

Wool
The price decline continued at this week's Australian and New Zealand sales, and has now wiped out many of the gains made earlier in the season. The market indicators in Australia registered average falls of 37 and 38 cents on Tuesday, the largest so far. By today, however, merino values appeared to be stabilising, offering hope of a new price basis. The bigger offerings in Australia tested the market thoroughly, and no more than 70 per cent was sold in some cases. At Wednesday's sale in Bradford British wools were five per cent cheaper and the clearance was only 65 per cent. The Bradford market is very quiet and quotations for tops have been reduced

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	949	-14	963	933	3	4
Dec	980	-12	990	977	27,387	1,900
Mar	1013	-11	1023	1009	36,504	996
May	*1025*	*-11*	*1033*	*1026*	*12,848*	*83*
Jul	1038	-9	1038	1037	5,858	10
Sep	1053	-8	1053	1052	9,339	30
Total					104,224	3,179

■ *COCOA CSCE (10 tonnes; $/tonnes)*

	Sett price	Day's change	High	Low	Open int	Vol
Dec	1341	-	1349	1331	40,035	7,205
Mar	1393	-	1397	1383	16,013	1,375
May	1423	-	1425	1418	8,077	624
Jul	1451	-	-	-	2,680	69
Sep	1478	-	-	-	1,304	-
Dec	1505	-	1501	1501	4,983	49
Total					74,789	9,322

■ COCOA (ICCO) (SDR's/tonne)

Sep 28	Price	Prev. day
Daily	1019.67	1025.85

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Sep	3938	-100	4000	3938	691	71
Nov	3890	-91	3935	3880	10,830	2,306
Jan	3865	-81	3905	3855	15,171	1,994
Mar	3780	-82	3825	3770	7,480	651
May	3735	-66	3770	3735	2,360	17
Jul	3735	-30	3735	3735	1,237	13
Total					37,792	5,142

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	216.10	+1.60	216.50	211.20	21,897	7,797
Mar	219.95	+1.65	220.50	215.00	9,205	1,598
May	221.35	+1.95	222.00	217.00	3,807	589
Jul	221.75	+2.15	220.00	217.50	1,165	96
Sep	221.50	+1.50	221.50	220.00	521	10
Dec	222.75	+1.45	222.25	220.50	675	98
Total					37,720	16,188

■ COFFEE (ICO) (US cents/pound)

Sep 28	Price	Prev. day
Comp. daily	201.56	204.82
15 day average	204.18	204.09

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	12.82	+0.07	12.82	12.80	114	72
Jan	*11.82*	-			-	-
Mar	12.66	-			90	-
Total					204	72

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Dec	331.90	+4.10	331.90	327.00	3,561	326
Mar	331.90	+3.50	331.90	327.00	7,620	818
May	331.70	+3.30	331.70	328.00	1,319	17
Aug	332.10	+4.00	332.10	328.50	1,072	113
Oct	*314.80*	*+1.90*	*314.80*	*311.70*	*411*	*10*
Dec	313.70	+1.90	-	-	4	-
Total					13,987	1,284

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	12.69	+0.18	12.73	12.45	7,384	6,518
Mar	12.56	+0.17	12.58	12.33	98,642	9,853
May	12.55	+0.16	12.56	12.35	16,480	985
Jul	12.43	+0.14	12.43	12.24	10,484	570
Oct	*12.15*	*+0.09*	*12.15*	*12.01*	*7,205*	*607*
Mar	11.73	+0.07	11.70	11.66	1,085	103
Total					142,294	18,636

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	67.95	-0.35	68.30	67.80	284	122
Dec	67.16	-0.28	67.63	66.95	27,701	4,130
Mar	68.79	-0.34	69.25	68.76	10,749	577
May	70.06	-0.27	70.30	70.00	5,861	556
Jul	*71.10*	*-0.25*	*71.25*	*70.95*	*3,953*	*663*
Oct	68.75	-	-	-	486	-
Total					50,791	6,081

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Nov	99.75	+1.05	99.90	98.20	9,651	1,205
Jan	102.70	+1.10	102.75	101.00	6,482	830
Mar	105.30	+0.60	105.50	104.40	4,632	284
May	108.30	+0.45	108.50	107.75	1,042	160
Jul	*111.50*	*+0.65*	*111.55*	*111.50*	*809*	-
Sep	114.05	+0.45	114.50	114.50	168	142
Total					23,085	2,611

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Sep 29	Sep 28	month ago	year ago
2093.3	2105.2	2095.4	1570.8

■ CRB Futures (Base: 1967=100)

Sep 28	Sep 27	month ago	year ago
230.88	231.65	233.65	215.55

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Oct	68.375	-0.225	68.675	68.350	21,100	7,719
Dec	68.025	-	68.425	68.000	20,681	6,384
Feb	67.375	-	67.600	67.200	14,295	1,573
Apr	68.600	-0.075	68.800	68.650	8,527	740
Jun	65.500	-0.200	65.850	65.500	2,197	186
Aug	65.275	-0.175	65.475	65.250	1,064	44
Total					69,651	16,661

■ *LIVE HOGS CME (40,000lbs; cents/lbs)*

	Sett price	Day's change	High	Low	Open int	Vol
Oct	36.450	-0.450	37.200	36.300	6,752	1,745
Dec	36.775	-0.500	37.350	36.700	12,970	2,510
Feb	37.800	-0.175	37.950	37.550	4,572	1,158
Apr	37.775	-0.350	38.275	37.750	2,775	428
Jun	42.925	-0.450	43.350	42.650	1,235	351
Aug	42.050	-0.225	42.400	42.000	160	48
Total					28,674	6,321

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Feb	39.425	+0.300	39.625	38.950	7,635	1,158
Mar	39.450	+0.250	39.600	39.075	665	70
May	40.475	+0.325	40.750	40.250	205	57
Jul	41.075	+0.275	41.200	40.850	212	17
Aug	40.100	+0.150	40.100	39.950	45	2
Total					8,752	1,302

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ **ALUMINIUM (99.7%) LME**	**Nov**	**Feb**	**Nov**	**Feb**
1600	42	83	34	63
1625	30	71	47	75
1650	21	60	63	89
■ **COPPER (Grade A) LME**	**Nov**	**Feb**	**Nov**	**Feb**
2500	76	121	39	84
2550	50	96	62	109
2600	31	76	92	137
■ **COFFEE LCE**	**Nov**	**Jan**	**Nov**	**Jan**
3600	334	422	43	154
3650	296	392	55	174
3700	261	363	48	195
■ **COCOA LCE**	**Dec**	**Mar**	**Dec**	**Mar**
975	42	91	37	53
1000	31	78	51	65
1050	16	57	86	94
■ **BRENT CRUDE IPE**	**Nov**	**Dec**	**Nov**	**Dec**
1650	40	-	19	-
1700	17	53	-	-
1750	8	36	-	-

LONDON SPOT MARKETS

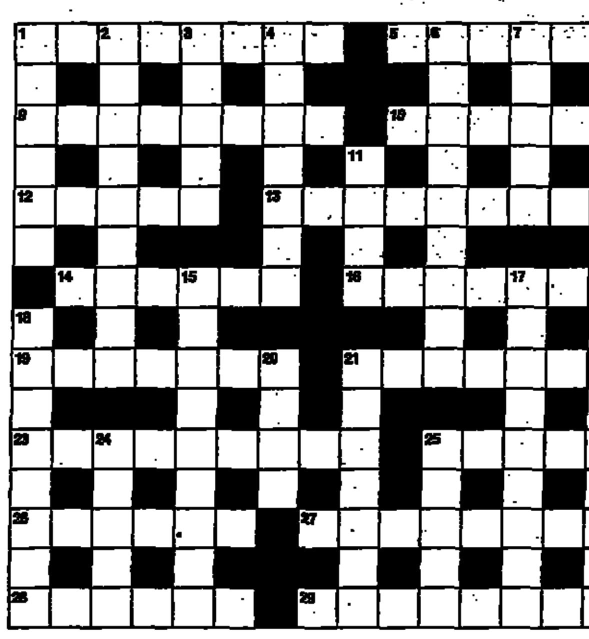
■ CRUDE OIL FOB (per barrel/Nov) +or-

		+or-
Dubai	$15.61-5.76u	+0.355
Brent Blend (dated)	$16.59-6.61	+0.445
Brent Blend (Nov)	$16.83-6.86u	+0.355
W.T.I. (1pm est)	$17.93-7.95u	+0.285
■ **OIL PRODUCTS NWE prompt delivery CIF (tonne)**		
Premium Gasoline	$169-172	
Gas Oil	$154-155	+3
Heavy Fuel Oil	$77-79	+3
Naphtha	$161-162	+1
Jet fuel	$175-176	+2
Petroleum Argus assessments		
■ **OTHER**		
Gold (per troy oz)♣	$395.50	
Silver (per troy oz)♣	583.0c	+1.6
Platinum (per troy oz.)	$417.75	-2.75
Palladium (per troy oz.)	$151.85	-2.15
Copper (US prod.)	128.0c	
Lead (US prod.)	38.25c	
Tin (Kuala Lumpur)	13.42m	-0.11
Tin (New York)	250.5c	
Cattle (live weight)†‡●	114.79p	+1.01*
Sheep (live weight)†♣●	87.53p	+0.80*
Pigs (live weight)●	76.26p	+2.41*
Lon. day sugar (raw)	$308.9	-1.4
Lon. day sugar (wte)	$334.5	-1.5
Tate & Lyle export	£308.0	-1.0
Barley (Eng. feed)	Unq.	
Maize (US No3 Yellow)	$136.0	
Wheat (US Dark North)	£160.0	
Rubber (Nov)♥	*91.50p*	+1.5
Rubber (Dec)♥	91.00p	+1.5
Rubber KL RSS No1 Oct	341.50m	+2.5
Coconut Oil (Phil)§	$640.0z	
Palm Oil (Malay.)§	$615.0t	-15
Copra (Phil)§	$406	-4
Soyabeans (US)	£158.0z	
Cotton Outlook 'A' Index	73.85c	+0.05
Wooltops (64s Super)	463p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. † ringgit/kg. m Malaysian cents/kg. u Nov. t Oct. z Sep/Oct. w Sep . ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♣ Sheep (Live weight prices). * Change on week. ● Prices are for previous day.

CROSSWORD

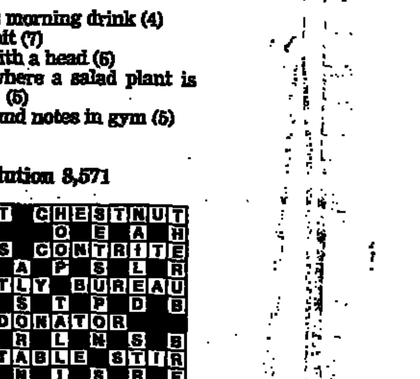
No.8,572 Set by CINCINNUS



ACROSS
1 Chaff no good when old? (8)
5 Light study used behind bars (6)
7 Very hungry birds devouring foul heart (8)
10 Prepare an American lawyer for battle in fleet (6)
12 Try to get 21 across novel outright (5)
13 Not quite a sea, rather a seaport (9)
14 Laurel and Hardy start after quiet Scandinavian comes round (6)
16 Fruit and nuts à la mode (7)
19 Deviated before getting cast out (7)
21 Spokespersons for a crime writer? (6)
23 Female lover getting back at a Latin one (9)
25 Pasta sauce produced from grapes, tomatoes, etc (5)
26 Scared by a load incursion (6)
27 Contribution of iron band (8)
28 Flag for junior officer (6)
29 Military HQ has to write about gun and introduction of Oliver North (8)

DOWN
1 Poet, we hear, is excluded (6)
2 Ravage gallery after having rescued Turner? (9)
3 Simpleton in New York hostelry (5)
4 Britain imports drink to accompany the French grouse (7)
6 Celebration entertaining one and all? Not all (9)
7 State of Florida holidaymakers? (5)
8 Reputation follows with a better ascent for astronaut (8)
11 Mountains seen when holding record (4)
15 Acutely distressing work for the farmer (9)
17 Constable's work, perhaps, or Ingres art work (9)
18 Reckon I'm coming into property (8)
20 Doctor's morning drink (4)
21 Take a hit (7)
22 Drink with a head (6)
24 Lands where a salad plant is cropped (5)
25 Fold pound notes in gym (5)

Solution 8,571



JOTTER PAD

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LONDON STOCK EXCHANGE

MARKET REPORT

Losses extended towards the close of trading

By Terry Byland, UK Stock Market Editor

What had begun as a gloomy session in the UK stock market turned distinctly more sinister yesterday afternoon when markets across Europe reacted strongly to US data suggesting accelerated economic recovery. A £250m sell programme from a leading US investment bank fell on a market where trading books have been mostly squared off ahead of tonight's close to trading for the third quarter of the year.

Marketmaking firms, which were still tidying up after selling programmes earlier in the week, hastily cut share quotation yesterday afternoon but were believed to have suffered heavy losses none the less.

The FT-SE 100 Index was around 24 points down in mid-afternoon and quickly plunged through the 3,000 mark as Wall Street reacted to news of a revised gain of 4.1 per cent in US second-quarter GDP and a 9.7 per cent leap in August new home sales. The Dow Jones Industrial Average showed a fall of 22 points in UK trading hours and weakness in Federal bonds fuelled worries over prospects for rate tightening in the US.

At the close, the FT-SE 100-share Index was 46.2 off at 2,992.5, having steadied after touching 2,991.6. With only one more trading day left, the Footsie index is showing a small loss over the 1994 third quarter. Brokerage sources believe that some fund managers are improving the appearance of portfolios by selling equities this week, even though returns on cash are not attractive.

The stock market was under pressure from the opening as it faced weakness from other European bourses and a batch of developments in the domestic utility sector. British Gas weakened after the much-heralded early morning meeting with institutional investors in the City of London failed to inspire support. Confirmation of the UK government's intentions to sell its 40 per cent stakes in National Power and PowerGen helped the sector, since the investment funds will hasten to increase weightings; but the prospect of a further, and substantial, cash drain was not helpful for the equity market as a whole.

The sudden renewal of the bear rush badly caught out marketmakers who had bought stock during the upswing of the previous session.

Yesterday's sell programme was believed to have been taken aboard by the US bank on Wednesday when the Footsie was some 40 points higher than at last night's close.

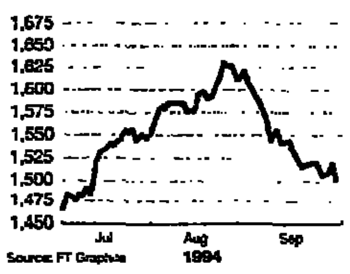
Weakness across the range of equities was also reflected in a fall of 29.8 in the FT-SE Mid 250 Index, which closed at 3,504. But overall, trading volume was not high. The day's Seaq total of 586.5m shares compared with 577.5m in the previous session. Retail business was worth £1.57bn on Wednesday, a hopeful return to the higher end of this year's daily averages and therefore a sign of a healthier market.

Strategists sounded unsure of the significance of the renewed shakeout in equities. On the one hand, it is clear technical factors surrounding the end of the quarter were affecting markets yesterday; but on the other, some analysts expressed concern over the strong data on the US economy.

These statistics revived fears that the Federal Reserve may feel forced to act on US interest rates, and this tended to counter-balance yesterday's decision by the Bundesbank to leave key rates unchanged. The UK is regarded as the European market most likely to be immediately affected if US rates rise.

Next week brings a full calendar of US economic statistics, including construction spending and factory orders and – most importantly – the latest payroll and unemployment figures. Arriving in the wake of yesterday's strong GDp and housing numbers, these statistics are likely to unsettle equity and bond markets.

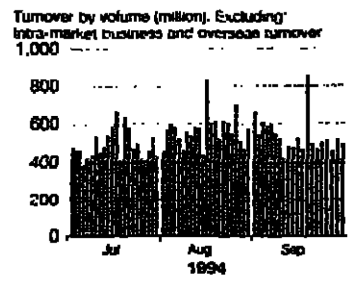
FT-SE-A All-Share Index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



■ Key Indicators

Indices and ratios

FT-SE 100	2992.5	-46.2	FT Ordinary index	2323.8	-32.7
FT-SE Mid 250	3504.0	-29.8	FT-SE-A Non Fins p/e	18.38	(18.61)
FT-SE-A 350	1509.2	-20.9	FT-SE 100 Fut Dec	2996.0	-60.0
FT-SE-A All-Share	1500.09	-19.67	10 yr Gilt yield	8.93	(8.91)
FT-SE-A All-Share yield	4.01	(3.96)	Long gilt/equity yld ratio:	2.22	(2.25)

Best performing sectors		Worst performing sectors	
1 Water	+0.7	1 Gas Distribution	-3.1
2 Engineering Vehicles	-0.1	2 Household Goods	-2.5
3 Food Manufacturers	-0.1	3 Life Assurance	-2.3
4 Tobbaco	-0.2	4 Diversified Industrial	-2.3
5 Other Services & Bus	-0.2	5 Transport	-2.2

Active trade in utilities

The British Gas strategy meeting, details of the Offer review of the Scottish power companies, and confirmation that the government is to sell its remaining 40 per cent stakes in the two English generators, triggered exceptionally heavy trading in the utilities areas of the market.

The water sector provided one of the FT-SE 100's best performers in Severn Trent, which advanced 9 to 551p after more switching from the regional electricity companies (recs), while the two Scottish generator groups plunged, with Scottish Power easily the FT-SE 100's worst performer.

Utilities analysts said the Offer review was broadly as expected but that the stocks were hit for a number of reasons. These included the market's overall poor performance, over-optimistic expectations of real dividend growth which some of the bulls said could be in the region of 8 to 10 per cent, the underperformance of the English generator companies, and worries about Scottish Hydro-Electric taking its case to the Monopolies and Mergers Commission.

Three of the market's heavyweight broking firms, BZW, S.G. Warburg and Kleinwort Benson, were said to have adopted a bearish view of the regulatory review and been partly responsible for driving Scottish Power down 31 to 349p in 15m shares traded and Hydro-Electric 45 lower to 327p on 8.5m.

National Power outperformed the market and lost only 3½ at 450½p and PowerGen managed a marginal gain at 514p, with dealers expecting the big institutions to chase both stocks ahead of the share sales.

There were no real shocks in British Gas's strategy presentation; the stock receded 9½ to 280p on turnover of 28m. Some analysts were disturbed by the apparent inconsistency on dividend policy, but others professed satisfaction with the company's performance at the meeting and especially that of Mr Giordano, the non-executive chairman.

Ms Irene Himono at Strauss Turnbull increased her current year dividend forecast from 14.5p tp 14.75p and that for next year to 15.5p. Mr Steve Turner at Nomura moved his dividend estimates up to 14.8p and 15.5p and labelled Gas a "trading buy". He added: "It was a very positive presentation, with the management committed to delivering real dividend growth."

ICI upgraded

ICI shares put on a resolute performance in the face of the sharp market slide, finishing only 7 cheaper at 828½p. The stock attracted keen institutional support, triggered by a series of profits upgrades and recommendations as the company has embarked on a series of meetings with leading broking houses.

Hoare Govett raised its earnings forecast for the current year from £450m to £495m and that for 1995 from £600m to £650m, and moved the shares from "undervalued" to "buy" after a strong showing in the third quarter. "Current momentum is suggesting a share price move to 900p over the coming quarter," said Mr Martin Evans, chemicals analyst at Hoare. NatWest Securities also hoisted its earnings expectations, by 11 per cent to £500m for the current year and by 3 per cent to £670m for 1995.

VSEL alert

Nuclear submarine contractor VSEL soared 225 to 1,228p after its admission that it had received a takeover approach. Traders pinpointed British Aerospace and GEC as the bid frontrunners, and the talk in the market suggested that a full blown auction could well be in the offing.

If the consensus among analysts is any guide, any possible opening bid could be an all-share offer of around 1,350p a share. Both potential bidders found ready sellers, with BAe tumbling 15 to 449p and GEC dipping 4 to 289p.

Vosper Thornycroft, another maritime defence contractor, shared in the excitement, moving up 23 to 720p.

BA falls sharply

British Airways, beset by air fare competition, received a further jolt yesterday with the news that a major US trade investment was passing a quarterly dividend.

The culprit is USAir, 25 per cent owned by BA, which is omitting a quarterly convertible preference payment at a cost to BA of £16m. BA shares slid 16 to 344p in 7.7m trades.

The fear among traders is that USAir's dividend announcement is the prelude to what could, conceivably, prove to be even more dramatic news given the parlous condition of the North American airlines business.

The suspicion is growing that BA's supposed springboard into the US market could shortly involve the UK airline in heavy write-offs of its $400m investment.

Hotels group Forte was one of a handful of stocks that managed to resist the market slide, as dealers celebrated a better than expected set of interim figures.

The shares closed 3½ ahead at 222p after the group reported a profits rise to £60m, from £37m a year earlier. There was heavy trading in the stock and volume jumped to 11m. UBS, the company's broker, was said to have been an aggressive buyer of the shares. Relief at the lack of a predicted rights issue also boosted sentiment.

Several brokers raised full-year profits expectations by a modest amount. Kleinwort Benson, which increased its full-year estimate by £6m to £135m, called the figures "encouraging". Analysts at BZW lifted their forecast by £4m to £126m, but they remain sellers of the stock because "the cash flow recovery will not be as strong as earnings recovery, thus dividend growth is likely to be constrained".

Redland blew hot and cold, initially racing up to 529p after the better than expected interim figures but then going into reverse and closing a net 29 off at 493p as analysts emerged from the post-results meeting with news of higher tax charges, resulting from higher German corporate taxes and exhaustion of capital allowances.

S.G. Warburg shares suffered on two counts, with worries about possible losses in international bond and equity markets affecting sentiment and Merrill Lynch, the US brokerage, said to have been heavily involved in the stock via an OTC option. Warburg settled 19½ lower at 681p.

MARKET REPORTERS:
Steve Thompson,
Joel Kibazo, Jeffrey Brown,
George Horsington.

■ Other statistics, Page 22

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (23). [illegible] RETAILERS, GENERAL (1) Stylo. SPIRITS, WINES & CIDERS (1) Macallan-Glenlivet. TEXTILES & APPAREL (1) Wensum. AMERICANS (1) Lowe's. CANADIANS (1)

NEW LOWS (160).

BANKS (2) Abbey Natl., Espirito Santo. BREWERIES (1) Fuller STA. BUILDING & CNSTRN (16) BLDG MATLS & MCHTS (7) Atreus, Cape, Explaura, Haywood Wms. Prf., Ibstock Wnts., Tarmac, Wickes. CHEMICALS (2) Courtaulds, Manders. DISTRIBUTORS (7) Appleyard, Azlan, Bridgend, Cowie, Diploma, Perry, Wholesale Fittngs. DIVERSIFIED INDLS (3) BTR Wnts. 1995/96, Do Wnts. 1997, Barlo. ELECTRNC & ELECT EQUIP (2) BICC, DRS Data. ENGINEERING (15) ENG. VEHICLES (2) Motor World, Select Inds., EXTRACTIVE INDS (1) FOOD MANUF (3) Dewro Intl., Unigate, Waterford A. HEALTH CARE (3) AAH, Greenacre, Scholl. HOUSEHOLD GOODS (3) Lionheart, Reckitt & Colman, Do 9½pc Bd., INSURANCE (5) Archer, Heath (CE), Lloyd Thompson, Lowndes Lambert, Sedgwick. INVESTMENT TRUSTS (22) INVESTMENT COMPANIES (4) Guangdong Dev., Latin Am. Extra Yld., Spanish Smlr. Co's, Wainhomes. LEISURE & HOTELS (3) Alpha Airports, Prem. Tring Intl., LIFE ASSURANCE (1) MEDIA (2) Barbour Index, Intereurope Tech., OIL EXPLORATION & PROD (3) Command, Europe Energy, North Sea Assets. OTHER FINANCIAL (5) Intrum Justitia, King & Shaxson, MAI, Secure, St. James's. OTHER SERVS & BUSNS (2) PHARMACEUTICALS (2) Grampian, Novo Nordisk B. PRTNG, PAPER & PACKG (8) Brit. Thornton, Parkside Intl., RPC, Sett, Sidlaw, St Ives. PROPERTY (16) RETAILERS, FOOD (1) Farepak. RETAILERS, GENERAL (7) Asprey, Betterware, Lloyds Chem. 7½p Prf., MFI, Menzies (J), Sears, Storehouse. SUPPORT SERVS (4) ACT, BSM, Macro 4, Stat-Plus. TEXTILES & APPAREL (6) Alexandra Workwear, Brackenbridge, Compart, Parkland, Readicut. TRANSPORT (4) Brit. Airways, Do 9½pc Cnv., Tibbett & Britten, Transport Dev., AMERICANS (2) Hasbro, Melvy Tech.

EQUITY FUTURES AND OPTIONS TRADING

Stock Index futures fell steeply yesterday, blighted partly by heavy selling from a number of US houses, and premiums to the cash market narrowed dramatically.

In relatively heavy trading volume, the FT-SE 100 December contract retraced all of the previous session's gain, closing a full 60 points down at 2,996.

At this level the premium to the cash market is 3.5 points – in market contrast to Wednesday's occasional 20 points-plus – with the fair *value premium at around* 19.

Most of the morning and early afternoon was characterised by modest activity. But some US houses, notably Citicorp and Goldman Sachs, weighed in heavily with selling orders after 3pm.

The December contract bounced back above 3,000 after the official close, but traders said the level of last-minute support had been *tentative at best*.

At the 4:10pm official close, trading volume was 14,021 contracts, broadly in line with the previous day, rising to 16,321 by the end of the day.

Traded option turnover edged lower to 28,981 lots from the 30,859 of the previous session. FT-SE and Euro FT-SE volume totalled 9,305 contracts.

Ladbroke was the most actively traded stock option at 2,413 lots, followed by Argyll Group at 2,068 contracts and Forte at 1,563.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3057.0	2996.0	-60.0	3058.0	2993.0	16321	51696
Mar	-	3020.5	-60.0	-	-	0	2165

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3550.0	3505.0	-48.0	3550.0	3525.0	175	3739

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

Dec	3,505.0	0

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (*2994) £10 per full index point

	2800 C	2800 P	2850 C	2850 P	2900 C	2900 P	2950 C	2950 P	3000 C	3000 P	3050 C	3050 P	3100 C	3100 P	3150 C	3150 P
Oct	194½	10	147½	13½	107½	22½	73	38	43	61	25½	93½	12½	130½	175	5
Nov	213	24	172½	33½	137	46½	105	63	76	85	54½	113½	36	146	23½	184½

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

FT-SE Actuaries Share Indices — The UK Series

	Sep 29	Day's chge%	Sep 28	Sep 27	Sep 26	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	2992.5					3037.5	4.22	7.29	16.19	104.76	1133.20
FT-SE Mid 250	3504.0					3433.2	3.56	5.85	20.58	98.05	1304.31

■ FT-SE Actuaries All-Share

■ Hourly movements

■ FT-SE Actuaries 350 Industry baskets

TRADING VOLUME

■ Major Stocks Yesterday

LONDON EQUITIES

LIFFE EQUITY OPTIONS

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	18	38	14
Other Fixed Interest	1	3	11
Mineral Extraction	33	84	79
General Manufacturers	61	237	347
Consumer Goods	28	66	93

TRADITIONAL OPTIONS

LONDON RECENT ISSUES: EQUITIES

RIGHTS OFFERS

FINANCIAL TIMES EQUITY INDICES

FT GOLD MINES INDEX

LONDON SHARE SERVICE

BANKS

Notes	Price	+ or -	1994 high	1994 low	Mkt Cap£m	Yld Gr's	P/E
ABN Amro Fl	£21$\frac{7}{32}$	+$\frac{3}{32}$	£25$\frac{1}{4}$	£20$\frac{13}{16}$	6,344	9.2	φ
ANZ A$	166	+1	278$\frac{1}{4}$	179$\frac{1}{4}$	2,475	6.0	28.4
Abbey National †N□	391xd	-7	523	380$\frac{1}{2}$	4,956	5.1	12.8
Allied Irish I£ ♣†N□	239xd	-3	314	233	1,680	5.3	9.2
Anglo Irish I£ M†N□	55	—	*70	50	169.3	7.8	10.0
Asahi Y	666$\frac{3}{4}$	+3$\frac{1}{2}$	819$\frac{1}{4}$	628	16,169	0.6	φ
Banco Bil Viz Pta	£15$\frac{11}{16}$	-$\frac{1}{8}$	£18$\frac{1}{2}$	£14$\frac{1}{2}$	3,348	5.4	6.8
Banco Sant Pta	£28$\frac{1}{4}$	+2$\frac{1}{4}$	*£39$\frac{1}{2}$	£23$\frac{1}{4}$	4,287	6.0	9.9
Bk Ireland I£ ♣N□	270	-3	*319	248	1,276	4.8	7.8
Bank Scotland ♣N□	198	-5	247	172$\frac{1}{2}$	2,310	3.2	16.2
9$\frac{1}{4}$pc Pf	111$\frac{1}{4}$	-$\frac{1}{4}$	141$\frac{1}{2}$	111	111.8	10.3	–
9$\frac{1}{4}$pc Pf	117	-$\frac{1}{4}$	148$\frac{1}{2}$	118	117.0	10.4	–
Barclays ♣†N□	559xd	-8	640	487	9,100	3.7	10.7
Dai Ichi Kan Y	£11$\frac{1}{2}$	+$\frac{1}{2}$	£12$\frac{13}{16}$	£10$\frac{1}{8}$	35,289	0.5	–
Deutsche DM	£278$\frac{1}{4}$	-6$\frac{1}{4}$	£344$\frac{1}{4}$	£270$\frac{1}{4}$	13,249	2.4	–
Espirito Santo	£8$\frac{11}{16}$	—	*£13$\frac{1}{32}$	£8$\frac{1}{16}$	189.0	4.4	4.4
First Nat Fin N□	70	-3	*90	60	118.2	2.7	–
6.3pc Cv Pf	76	—	*80	75	6.11	10.4	–
7pc Cv Pf	133	-1	171	123	63.1	6.6	–
Fuji Bank Y	1367$\frac{3}{4}$	+20	1649$\frac{1}{4}$	1152$\frac{1}{2}$	39,622	0.4	φ
HSBC HK †N□	715xd	-12	1133	690	12,512	4.3	10.4
HSBC (75p Shs) †N□	696xd	-12	1113	660	5,916	4.4	10.1
Lloyds †N□	543xd	-11	660	519	7,031	5.3	10.7
Mitsubishi Y	£15$\frac{7}{16}$	+$\frac{1}{8}$	£18$\frac{1}{32}$	£15$\frac{5}{16}$	45,951	0.3	φ
Mits Tst & Bk Y	940$\frac{1}{4}$	-2$\frac{3}{4}$	1162$\frac{1}{4}$	687$\frac{1}{2}$	11,272	0.5	14.8
Mitsui Tst & Bk Y	674$\frac{1}{4}$	-1$\frac{1}{4}$	879	514	8,076	0.8	22.5
Nat Aust A$ †	488	+3	629$\frac{1}{4}$	479	6,532	5.7	10.4
NatWest †N□	476xd	-6	622	421	7,925	5.1	8.8
Ottomane FFr	£22$\frac{1}{4}$	+$\frac{1}{4}$	£33	£21$\frac{1}{4}$	111.2	6.5	φ
Ryl Bk Scotland ♣†N□	416	-3	528	377$\frac{1}{2}$	3,332	3.6	18.8
Sakura Y	£9$\frac{1}{2}$	+$\frac{1}{16}$	£9$\frac{11}{16}$	£8$\frac{1}{16}$	27,872	0.7	51.0
Sanwa Y	£12$\frac{1}{32}$	+$\frac{1}{16}$	£15$\frac{1}{4}$	£11$\frac{1}{2}$	37,065	0.5	–
Standard Chartd †N□	254xd	—	*389$\frac{1}{4}$	223	2,440	3.1	8.7
7 3/8pc Pf	83$\frac{1}{4}$xd	-$\frac{1}{4}$	109$\frac{1}{2}$	82$\frac{1}{4}$	83.2	11.1	–
Sumitomo Y	£11$\frac{3}{4}$	-$\frac{1}{16}$	£16$\frac{1}{8}$	£11$\frac{1}{2}$	37,310	0.5	25.0
Sumitomo Tst Y	918$\frac{1}{4}$	-4$\frac{1}{4}$	1146$\frac{1}{2}$	825	11,422	0.6	φ
TSB †N□	214xd	-2	291	197	3,276	4.7	10.8
Tokai Y	£7$\frac{3}{4}$	-$\frac{1}{8}$	£9	£6$\frac{13}{16}$	15,520	0.8	47.2
Toyo Tst & Bk Y	663$\frac{1}{2}$	-2$\frac{1}{4}$	852	568$\frac{1}{4}$	5,450	0.7	60.6
Westpac A$	215	—	269	194	3,913	2.5	φ
Yasuda Tst Bk Y ‡	545$\frac{1}{4}$	-1$\frac{1}{4}$	686	442	6,021	0.9	47.7

BREWERIES

Notes	Price	+ or -	1994 high	1994 low	Mkt Cap£m	Yld Gr's	P/E
Ascot Hldgs □	3$\frac{1}{4}$	—	16$\frac{1}{4}$	3$\frac{1}{4}$	12.1	–	–
Bass †N□	516	-10	619	485	4,469	5.1	13.5
Boddington †N□	260xd	—	299	250	315.4	4.0	17.9
Burtonwood N	192	—	196	168	38.9	3.3	16.0
Eldridge Pope A ‡†N	157	—	181	142	30.6	2.9	21.8
Fosters A$	55	+1	68	46$\frac{1}{4}$	1,770	5.1	φ
Fuller STA ‡†N	393	-3	453	393	80.2	2.5	16.2
Gibbs Mew ‡†N	448xd	+3	*448	348$\frac{1}{4}$	47.9	2.4	φ
Greenalls ♣†N□	413	-11	611	399	658.2	3.8	15.8
Greene King N□	516	—	594	452	217.8	3.1	14.3
Grosvenor Inns ‡†N	143xd	—	*185	124	19.0	4.2	φ
Holt (J) †N	3706	+33	3773	3125	111.2	1.7	20.8

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

MERCHANT BANKS

OIL EXPLORATION & PRODUCTION

OIL EXPLORATION & PRODUCTION - Cont.

OIL, INTEGRATED

OTHER FINANCIAL

OTHER SERVICES & BUSINESSES

PHARMACEUTICALS

PRINTING, PAPER & PACKAGING

PROPERTY

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SPIRITS, WINES & CIDERS

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

TRANSPORT - Cont.

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	1994 high	1994 low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind.		£29¼	...	£30	£13½	1,906	2.5	21.4
Barlow	z	841½	+¼	£5½	£3½	866.4	0.7	-
Gold Flds Prop R		118xd	...	128	75	12.1	7.8	ϕ
MK Props.	z	85	...	95	85	3.42	14.0	ϕ
SASOL	♥	496	...	500	280	2,820	2.8	-
SA Brews		£17⅞	...	£15½	£10	3,289	2.3	19.4
Tiger Oats	†	813	...	838	538	921.8	2.6	12.9
Tongaat-Hulett	h	602	...	*818½	356¼	648.7	2.1	16.6

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system
- • Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 21.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below
- ⁑ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Rule 4.2(a) UK & Irish incorporated non-listed companies.
- ‖ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield: p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94
N Figures based on IIMR 'Headline Earnings'
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualise yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion.

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code **FT4935**. Ring 081-770 0770 (open 24 hours including weekends) or Fax 081-770 3822. If calling from outside the UK, ring +44 81 770 0770 or fax +44 81 770 3822. Reports will be sent the next working day, subject to availabilty.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.

An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

OTHER UK UNIT TRUSTS

	Bid Price	Offer Price	+ or -	Yield Gross
Baillie Gifford & Co Ltd				
Int'l Expt Aug 31	770.0	787.0	—	0.95
Baring Investment Mangmt Ltd				
155 Bishopsgate, London EC2M 3XY				
071-214 1000 general enquiries 071-214 1004 dealing				
Charitable Funds				
UK Growth & Income	55.41	57.38	-0.10	3.2
Income Plus	47.30	[illegible]	+0.47	7.5
CAF – Charity Money Management				
48 Pembury Rd, Tonbridge TN9 2JD 0732 770114				
Balanced Growth	70.09	72.70	—	4.25
Income	56.08	57.02	—	6.92
CIM Unit Trust Managers Ltd				
Co-op Bank Ethical Eq Sep 15	[illegible]	[illegible]	—	3.37
Cent. Bd. of Fin. of Church of England‡				
2 Fore Street, London EC2Y 5AQ 071-588 1815				
Inv Fund Aug 31	695.90	692.30	—	4.38
Fxd Int Sec Aug 31	148.58	148.85	—	8.74
Deposit Fund: See Money Market Trust Funds.				
Chargeard UK Equity Fd/Fixed Int Fd				
10 Fenchurch St, London EC3M 3LB Freephone 0800 716063				
Charities/Charishare‡ (1000)F				
33 King William Street, EC4R 9AS 071-280 2800				
COIF–Charities Official Inv Fd‡				
2 Fore Street, London EC2Y 5AQ 071-588 1815				
Deposit Account: See Money Market Trust Funds				
Charity Fixed Int Fd/Charity Equity Fd				
33 Gutter Lane EC2V 8AS 071-382 3906 (Gen Enquiries)				
071-382 3904 (Dealing)				

AEGON Life Assurance Co (UK) Ltd

AEGON Hse, Lanark Sq, London E14 9XS 071-538 8800

Albany Life Assurance Co Ltd

3 Darkes Lane, Potters Bar EN6 1AJ 0707 665000

INSURANCES

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Scottish Provident Group

6 St Andrew Sq, Edinburgh 031-556 2982

Scottish Provident Institution Funds

Life Funds

	Bid Price	Offer Price	+ or -	Yield Gross
With-Profits	114.0	120.1	[illegible]	-
Managed	[illegible]	[illegible]	+0.1	-
Blue Chip	[illegible]	[illegible]	+0.2	-
Equity	[illegible]	[illegible]	-0.3	-
International	[illegible]	[illegible]	[illegible]	-
Property	[illegible]	247.8	+0.1	-
Fixed Interest	[illegible]	217.1	+0.7	-
Index-linked	172.6	181.8	+0.6	-
Cash	[illegible]	[illegible]	—	-
Money Market	[illegible]	[illegible]	-	-
American Performance	[illegible]	[illegible]	+2.1	-
Europe Performance	[illegible]	[illegible]	-0.8	-
Far East Performance	[illegible]	144.2	+0.7	-
Worldwide Performance	152.1	160.2	+0.1	-

Sun Life Unit Assurance Ltd - Contd.

Swiss Life (UK) PLC

101 London Rd, Sevenoaks 0732 450161

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

FT MANAGED FUNDS SERVICE

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LUXEMBOURG (REGULATED)(**)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

[illegible]

CURRENCIES AND MONEY

MARKETS REPORT

Trade talk nerves

Strong US economic statistics and the Bundesbank's decision to leave interest rates unchanged failed to lift the foreign exchange markets out of their pre-weekend torpor yesterday, *writes Philip Coggan.*

Trade was thin ahead of the weekend's expected announcement on US-Japan trade talks and the meeting of G7 finance ministers.

The US has set today as the deadline for a trade deal, after which it will impose sanctions. A failure of the talks is expected to be bad news for the dollar. But even a successful outcome may not necessarily prove a boost for the US currency.

"My personal view is that whatever is agreed will be seen as a compromise and I don't expect the dollar to rally too much. I think the upside for the dollar against the yen is really quite limited," said Mr Julian Simmons, managing director, foreign exchange and money markets (Europe) at Citibank.

"The US and Japan have to convince the market that the issue is now dead. If they don't do that, the dollar is going to be vulnerable," said Mr Adrian Cunningham, senior currency economist at UBS.

Analysts did not expect the markets to show signs of life until the result of the US-Japan talks was known. "No-one wants to take a position ahead of the outcome," said one trader.

Mr Rob Hayward, economic advisor at Bank of America, said that the meeting of G7 finance ministers this weekend had created the background fear that the authorities might try to help the dollar. "But I don't think that's a credible idea," he added.

The dollar closed in London at Y98.5050, down slightly from Y98.7200 on Wednesday. Against the D-Mark, the dollar also finished lower, closing at DM1.5458 from Wednesday's DM1.5467.

■ A series of statistics indicating that US economic growth continued to be strong had an adverse effect on the bond market, but appeared to have little impact on the dollar.

US second quarter gross domestic product growth was revised upwards from 3.8 per cent to 4.1 per cent. The main cause of upward revision was largest rise in inventories in 6¼ years. However, this figure is now largely a matter of historical interest and the key number will be the rate of third quarter growth.

More significant may have been the announcement that jobless claims in the week to September 24 were 310,000, the lowest figure this year and down from a revised 321,000 in the previous week.

Mr Cunningham said the "further decline in initial claims figures may cause some to revise upwards their forecasts of non-farm payrolls", which will be announced a week today. A strong payroll number will put pressure on the Federal Reserve to raise rates, which it declined to do earlier this week.

Further signs of US economic strength were shown when August homes sales were reported to have risen by 8.7 per cent.

■ The Bundesbank kept official rates unchanged yesterday and announced another two fixed rate repos at 4.85 per cent. The German bank's inaction did not come as a surprise to the foreign exchange markets.

"The Bundesbank is attempting to paint a picture of stability ahead of the election," said UBS's Mr Cunningham. But analysts fear that the D-Mark could suffer in the run-up to the October elections, with doubts about the electoral prospects of Chancellor Helmut Kohl's coalition partners, the FDP.

Three month German interest rates are now below those in the US, having started the year with a gap of more than 250 basis points in the D-Mark's favour, but this shift has done little for the health of the dollar.

■ The Italian lira gained slightly on the back of a statement from Mr Umberto Bossi, the leader of the Northern League party, who described the 1995 Budget as "fair and strong", thereby increasing the chance of its passage through Parliament. The lira closed in London at L1,005/DM, from L1,007 in Wednesday.

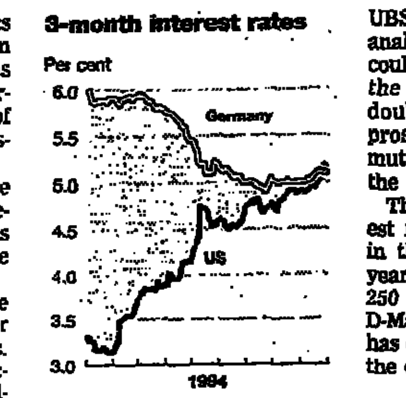
Sterling was on the sidelines for most of the day but closed marginally ahead against both the D-Mark and dollar. Against the German currency, its close of DM2.4443 led analysts to hope that it could make an attempt on the DM2.45 level. Against the dollar, it edged up to $1.581 from $1.5784.

■ South Africa's Reserve Bank governor Mr Chris Stals said in an interview that market conditions had become more favourable for the abolition of the financial rand.

In London, the financial rand closed at R4.22/$, compared with R4.225 on Wednesday, while the commercial rand fell back to R3.5673/$ from Wednesday's R3.5548/$.

■ In the UK money markets, the Bank of England said it provided help in two tranches of £20m and £440m. That compared with a forecast shortage of £500m, revised down from earlier estimates of £600m and £700m. Overnight rates moved within a range of 6⅛ per cent to 4¾ per cent.

3-month interest rates



Source: Datastream

■ Pound in New York

Sep 29	—Latest—	—Prev. close—
£ spot	1.5805	1.5750
1 mth	1.5800	1.5745
3 mth	1.5790	1.5725
1 yr	1.5642	1.5581

■ OTHER CURRENCIES

Sep 29	£	$
Hungary	*171.711 - 171.845*	*108.630 - 108.680*
Iran	2760.00 - 2763.00	1748.00 - 1750.00
Kuwait	0.4695 - 0.4709	0.2970 - 0.2978
Poland	*36530.0 - 36589.0*	*23110.0 - 23140.0*
Russia	4161.75 - 4186.50	2645.00 - 2648.00
U.A.E.	5.8004 - 5.8121	3.6715 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

†SDR rate for Sep 28. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Sep 28. Base average 1990=100

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Sep 29		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.09	16.60	4.864	2.014	4890	5.451	21.29	496.1	403.0	23.54	4.036	1.990	4.225	3.146	309.9	2.545
Denmark	(DKr)	52.38	10	8.695	2.547	1.055	2561	2.855	11.15	259.8	211.1	12.33	2.114	1.042	2.213	1.648	162.3	1.333
France	(FFr)	60.24	11.50	10	2.930	1.213	2945	3.283	12.83	298.8	242.7	14.18	2.431	1.199	2.545	1.895	186.6	1.533
Germany	(DM)	20.56	3.926	3.413	1	0.414	1005	1.121	4.378	102.0	82.86	4.840	0.830	0.409	0.869	0.647	63.71	0.523
Ireland	(I£)	49.65	9.480	8.243	2.415	1	2428	2.707	10.57	246.3	200.1	11.69	2.004	0.988	2.098	1.562	153.9	1.264
Italy	(L)	2.045	0.390	0.340	0.099	0.041	100.	0.111	0.435	10.15	8.242	0.481	0.083	0.041	0.086	0.064	6.337	0.052
Netherlands	(Fl)	18.35	3.503	3.046	0.892	0.369	897.0	1	3.907	91.02	73.93	4.319	0.740	0.365	0.775	0.577	56.85	0.467
Norway	*(NKr)*	*46.96*	*8.966*	*7.796*	*2.284*	*0.946*	*2296*	*2.560*	*10*	*233.0*	*189.3*	*11.06*	*1.895*	*0.935*	*1.984*	*1.478*	*145.5*	*1.195*
Portugal	(Es)	20.16	3.848	3.346	0.980	0.406	985.6	1.099	4.292	100.	81.23	4.745	0.813	0.401	0.852	0.634	62.45	0.513
Spain	(Pta)	24.81	4.738	4.120	1.207	0.500	1213	1.353	5.284	123.1	100.	5.842	1.001	0.494	1.048	0.781	76.89	0.632
Sweden	*(SKr)*	*42.46*	*8.110*	*7.052*	*2.066*	*0.855*	*2077*	*2.315*	*9.045*	*210.7*	*171.2*	*10*	*1.714*	*0.845*	*1.795*	*1.336*	*131.6*	*1.081*
Switzerland	(SFr)	24.78	4.731	4.113	1.205	0.499	1212	1.351	5.276	122.9	99.85	5.833	1	0.493	1.047	0.780	76.78	0.631
UK	(£)	50.25	9.594	8.342	2.444	1.012	2457	2.739	10.70	249.3	202.5	11.83	2.028	1	2.123	1.581	155.7	1.279
Canada	(C$)	23.67	4.519	3.929	1.151	0.477	1157	1.290	5.040	117.4	95.38	5.572	0.955	0.471	1	0.745	73.34	0.602
US	($)	31.78	6.068	5.276	1.546	0.640	1554	1.732	6.768	157.7	128.1	7.483	1.283	0.633	1.343	1	98.48	0.809
Japan	(Y)	32.27	6.162	5.358	1.570	0.650	1578	1.759	6.872	160.1	130.1	7.598	1.303	0.642	1.364	1.015	100.	0.821
Ecu		39.29	7.501	6.522	1.911	0.791	1921	2.142	8.366	194.9	158.3	9.249	1.586	0.782	1.660	1.236	121.7	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10: Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open Int.
Dec	0.6445	0.6456	+0.0010	0.6463	0.6444	39,251	71,310
Mar	0.6473	0.6465	+0.0019	0.6473	0.6465	39	4,111
Jun	-	0.6463	-0.0040	-	-	5	474

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.0155	1.0204	+0.0024	1.0227	1.0156	26,445	43,638
Mar	1.0279	1.0269	+0.0032	1.0299	1.0279	82	2,716
Jun	-	1.0357	-0.0076	-	-	1	452

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open Int.
Dec	0.7789	0.7798	+0.0010	0.7815	0.7781	19,829	35,117
Mar	0.7830	0.7828	+0.0013	0.7835	0.7828	34	657
Jun	-	*0.7847*	*-0.0058*	-	-	*10*	*87*

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.5742	1.5768	+0.0036	1.5778	1.5740	7,701	32,333
Mar	-	1.5750	-	1.5760	-	3	276
Jun	-	*1.5890*	-	*1.5890*	-	1	8

EMS EUROPEAN CURRENCY UNIT RATES

Sep 29	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.19672	2.15164	+0.00195	-2.05	5.33	-
Belgium	40.2123	39.4943	+0.0161	-1.79	5.04	13
Ireland	0.808628	0.794478	-0.001163	-1.75	5.00	12
Germany	1.94964	1.92066	+0.00079	-1.49	4.72	-
France	6.53883	6.55231	-0.00296	0.21	2.95	-2
Denmark	7.43679	7.53664	-0.00434	1.34	1.80	-9
Portugal	*192.854*	*195.825*	*+0.099*	*1.54*	*1.60*	*-10*
Spain	154.250	159.131	-0.148	3.16	0.00	-22
NON ERM MEMBERS						
Greece	264.513	292.770	+0.261	10.68	-6.79	-
Italy	1793.19	1930.71	-1.41	7.67	-4.18	-
UK	0.786749	0.785772	-0.000352	-0.12	3.29	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Oct	CALLS Nov	CALLS Dec	PUTS Oct	PUTS Nov	PUTS Dec
1.500	7.66	7.66	7.79	-	0.04	0.27
1.525	5.25	5.39	5.74	0.05	0.20	0.64
1.550	2.92	3.37	3.92	0.15	0.67	1.29
1.575	1.15	1.84	2.50	0.83	1.57	2.29
1.600	0.27	0.84	1.46	2.44	3.01	3.68
1.625	0.01	0.30	0.78	4.62	4.95	5.47

Previous day's vol., Calls 6,542 Puts 7,374 . Prev. day's open int., Calls 449,441 Puts 355,635

WORLD INTEREST RATES

MONEY RATES

EURO CURRENCY INTEREST RATES

UK INTEREST RATES

LONDON MONEY RATES

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9300	0.40	0.13	0.17	0.18	0.81	1.51
9325	0.25	0.08	0.11	0.28	1.01	1.70
9350	0.13	0.04	0.08	0.41	1.22	1.92

Est. vol. total, Calls 17777 Puts 6500. Previous day's open int., Calls 273992 Puts 173746

BASE LENDING RATES

	%
Adam & Company	5.75
Allied Trust Bank	5.25
AIB Bank	5.75
●Henry Ansbacher	5.75
Bank of Baroda	5.75
Banco Bilbao Vizcaya	5.75
Bank of Cyprus	5.75
Bank of Ireland	5.75
Bank of India	5.75
Bank of Scotland	5.75
Barclays Bank	5.75
Brit Bk of Mid East	5.25
●Brown Shipley & Co Ltd	5.75
CL Bank Nederland	5.75
Citibank NA	5.75
Clydesdale Bank	5.75
The Co-operative Bank	5.75
Coutts & Co	5.75
Credit Lyonnais	5.75
Cyprus Popular Bank	5.75
Duncan Lawrie	5.75
Exeter Bank Limited	6.75
Financial & Gen Bank	6.5
●Robert Fleming & Co	5.75
Girobank	5.75
●Guinness Mahon	5.75
Habib Bank AG Zurich	5.75
●Hambros Bank	5.75
Heritable & Gen Inv Bk	5.75
●Hill Samuel	5.75
C. Hoare & Co	5.75
Hongkong & Shanghai	5.25
Julian Hodge Bank	5.75
●Leopold Joseph & Sons	5.75
Lloyds Bank	5.75
Meghraj Bank Ltd	5.75
Midland Bank	5.75
* Mount Banking	6
NatWestminster	5.75
●Rea Brothers	5.75
* Roxburghe Guarantee Corporation Limited is no longer authorised as a banking institution.	9
Royal Bk of Scotland	5.75
●Smith & Williamson Secs.	5.75
TSB	5.75
●United Bk of Kuwait	5.75
Unity Trust Bank Plc	5.75
Western Trust	5.75
Whiteaway Laidlaw	5.75
Yorkshire Bank	5.75

● Members of London Investment Banking Association
* In administration

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Sep 29 / Sch)

BELGIUM/LUXEMBOURG (Sep 29 / Frs.)

DENMARK (Sep 29 / Kr)

FINLAND (Sep 29 / Mks)

FRANCE (Sep 29 / Frs.)

GERMANY (Sep 29 / Dm.)

ITALY (Sep 29 / Lire)

NETHERLANDS (Sep 29 / Fls.)

NORWAY (Sep 29 / Kroner)

SPAIN (Sep 29 / Pta.)

SWEDEN (Sep 29 / Kronor)

SWITZERLAND (Sep 29 / Frs.)

PACIFIC

JAPAN (Sep 29 / Yen)

AUSTRALIA (Sep 29 / AustS)

HONG KONG (Sep 29 / H.K.$)

MALAYSIA (Sep 29 / MYR)

SINGAPORE (Sep 29 / S$)

NORTH AMERICA

CANADA

TORONTO (Sep 29 / Can $)

4 pm close

MONTREAL (Sep 29 / Can $)

4 pm close

AFRICA

SOUTH AFRICA (Sep 29 / Rand)

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are usually last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (daily). # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Thursday, September 29, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	23.3m,	392	+7	Kobe Steel	4.4m	327	
Kawasaki Steel	13.9m	447	+9	Itochu Corp	3.3m	723	+11
NKK	9.7m	292	+4	Mitsubishi Elec	2.7m	706	+6
Sumitomo Mtl Ind	8.2m	350	+7	Mitsubishi Hvy	2.6m	882	+15
Oki Electric	6.3m	776	+1	Ishi-Har Hvy Ind	2.5m	488	+17

INDICES

	Sep 29	Sep 28	Sep 27	1994 High	1994 Low
Argentina					
General (29/12/77)	(u)	20836.59	20823.50	25470.40 18/2	17758.80 20/4
Australia					
All Ordinaries(1/1/80)	2030.6	2014.2	2013.8	2340.60 3/2	1957.40 27/6
All Mining(1/1/80)	1072.8	1068.1	1068.6	1136.10 3/2	994.80 5/5
Austria					
Credit Aktien(30/12/84)	400.12	402.25	397.85	480.66 2/2	397.85 27/9
Traded Index(2/1/91)	1072.25	1081.42	1071.34	1222.25 1/2	1011.38 6/6
Belgium					
BEL20 (1/1/91)	1377.31	1398.47	1384.95	1542.66 9/2	1377.31 29/9
Brazil					
Bovespa (29/12/83)	(u)	52771.0	52175.0	55110.00 13/9	3699.99 3/1
Canada					
Metals & Minls♦(1975)	(u)	4180.15	4155.88	4259.59 19/9	3298.88 20/4
Composite♦ (1975)	(u)	4372.50	4360.80	4609.90 23/3	3958.90 24/6
Portfolio§§ (4/1/83)	(u)	2080.36	2070.81	2182.66 1/2	1868.48 28/6
Chile					
IPGA Gen (31/12/80)	(u)	5018.1	4987.6	5818.10 28/9	3801.20 4/4
Denmark					
CopenhagenSE(3/1/83)	348.33	349.07	349.21	405.79 2/2	348.33 29/9
Finland					
HEX General(28/12/90)	1882.5	1885.4	1882.4	1972.00 4/2	1801.18 3/1
France					
SBF 250 (31/12/90)	1262.98	1279.69†	1278.42	1585.20 2/2	1262.98 29/9
CAC 40(31/12/87)	1876.18	1904.85	1901.28	2355.93 2/2	1868.18 4/7
Germany					
FAZ Aktien(31/12/58)	773.97	781.60	779.08	859.27 18/5	757.51 27/6
Commerzbank(1/12/53)	2203.80	2227.2	2218.5	2485.50 2/5	2149.38 27/6
DAX (30/12/87)‡	2043.58	2068.11	2058.73	2271.11 16/5	1988.82 20/6
Greece					
Athens SE(31/12/80)	848.24	841.71	843.59	1184.66 18/1	808.67 25/5
Hong Kong					
Hang Seng(31/7/64)	9700.21	9693.49	9610.24	12201.09 4/1	8383.44 4/5
India					
BSE Sens.(1979)	4358.30	4408.49	4444.56	4587.99 27/9	3454.00 5/1
Indonesia					
Jakarta Comp.(10/8/82)	497.24	502.13	507.24	612.80 5/1	448.72 12/7
Ireland					
ISEQ Overall(4/1/88)	1851.04	1859.76	1838.73	2082.16 20/1	1804.14 1/7
Italy					
Banca Comm Ital (1972)	580.97	583.55	580.91	617.17 10/5	586.85 10/1
MIB General (4/1/84)	1119.0	1123.0	1103.0	1318.00 10/5	944.09 10/1
Japan					
Nikkei 225 (16/5/49)	19615.12	19507.60	19468.89	21552.81 13/6	17369.74 4/1
Nikkei 300 (1/10/82)	288.89	287.19	286.04	311.71 13/6	268.22 4/1
Topix (4/1/68)	1578.27	1569.59	1562.75	1712.73 13/6	1445.97 4/1
2nd Section (4/1/68)	2230.63	2219.43	2231.43	2542.65 6/7	1873.33 4/1
Malaysia					
KLSE Comp.(4/4/86)	1133.88	1140.83	1149.00	1314.46 5/1	928.33 4/4
Mexico					
IPC (Nov 1978)	(u)	2764.82	2840.08	2881.17 8/2	1857.33 20/4
Netherland					
CBS TtlRtnGen(End 83)	430.0	430.7	427.1	464.80 31/1	405.30 21/6
CBS All Shr (End 83)	270.1	270.5	268.2	294.80 31/1	252.80 21/6
New Zealand					
Cap. 40 (1/7/86)	2072.55	2068.60	2083.58	2439.64 3/2	1945.51 11/7
Norway					
Oslo SE(Ind)(2/1/83)	1048.97	1051.09	1041.58	1211.18 28/2	980.91 21/6
Philippines					
Manila Comp (2/1/85)	2897.96	2877.59	2934.27	3369.37 4/1	2507.33 9/3
Portugal					
BTA (1977)	2890.6	2891.7	2893.1	3228.69 18/2	2812.80 20/6
Singapore					
SES All-S'pore(2/4/75)	577.21	574.41	586.95	641.61 4/1	523.29 4/4
South Africa					
JSE Gold (28/9/78)	2427.0♥	2464.0	2423.0	2534.60 7/9	1749.00 14/2
JSE Indl. (28/9/78)	6271.0♥	6251.0	6171.0	6767.09 15/6	5448.60 19/1
South Korea					
KoreaCompEx(4/1/80)**	1031.95	1039.79	1052.01	1052.01 27/9	855.37 2/4
Spain					
Madrid SE (30/12/85)	298.50	301.98	297.24	368.31 31/1	291.48 6/7
Sweden					
AffarsvardsGen (1/2/37)	1416.40	1432.20	1422.90	1603.98 31/1	1334.70 6/7
Switzerland					
Swiss Bk Ind (31/12/58)	1211.86	1228.47	1225.03	1423.34 31/1	1157.97 18/7
SBC General (1/4/87)	913.22	923.81	919.93	1082.29 31/1	888.10 13/7
Taiwan					
Weighted Pr.(30/6/66)**	7101.13	(c)	7029.10	7101.13 29/9	5194.63 19/3
Thailand					
Bangkok SET (30/4/75)	1482.12	1493.67	1502.25	1753.73 4/1	1196.59 4/4
Turkey					
Istanbul Comp.(Jan 1986)	26211.5	26106.5	26289.2	28663.60 13/1	12960.70 24/3
WORLD					
MS Capital Int (1/1/70)§	(u)	628.1*	625.4	644.08 2/8	591.50 4/4
CROSS-BORDER					
Eurotrack 100(26/10/90)	1330.58	1348.01	1340.34	1540.19 31/1	1303.48 21/6
Euro Top-100 (26/6/90)	1168.89	1185.97	1176.06	1311.01 2/2	1148.08 21/6
JCapsDigns (31/12/88)	(u)	337.89	338.18	365.19 5/1	290.28 21/3
Barings Emerg.(7/1/92)	(u)	188.88	189.80	191.79 28/9	141.85 21/4

** Sat Sep 24. Taiwan Weighted Price 6922.02; Korea Comp Ex 1037.41. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 25 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Sep 29 - 2016.09 -54.26

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Sep	1917.0	1896.0	+7.0	1926.0	1889.0	41,081	22,507
Oct	1923.5	1904.5	+7.0	1933.0	1898.5	11,713	17,263
Dec	1939.0	1939.0	+6.5	1939.0	1928.0	8	200

Open interest figures for previous day.

US INDICES

Dow Jones	Sep 28	Sep 27	Sep 26	1994 High	1994 Low	Since compilation High	Since compilation Low
Industrials	3878.18	3863.04	3849.24	3978.36 (31/1)	3593.35 (4/4)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	97.05	97.09	97.13	105.61 (21/1)	96.43 (13/5)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	1502.86	1498.26	1496.03	1862.29 (2/2)	1498.03 (26/9)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	178.75	177.76	177.10	227.06 (3/1)	175.85 (20/9)	256.48 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3904.75 (3891.69) Low 3854.29 (3828.72) (Theoretical♦)
Day's high 3880.96 (3871.45) Low 3863.04 (3844.87) (Actual♦)

Standard and Poors	Sep 28	Sep 27	Sep 26	1994 High	1994 Low	Since compilation High	Since compilation Low
Composite ‡	464.84	462.05	460.82	482.00 (2/2)	438.92 (4/4)	482.00 (2/2/94)	4.40 (1/6/32)
Industrials♥	550.18	546.92	545.49	560.83 (15/9)	510.05 (21/4)	560.83 (15/9/94)	3.62 (21/6/32)
Financial	43.51	43.29†	43.46	46.94 (14/6)	41.39 (4/4)	48.40 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	256.37	254.87	254.39	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	456.20	453.42	453.78	487.89 (2/2)	422.67 (28/6)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	760.02	755.37	755.63	803.93 (18/3)	693.79 (24/6)	803.93 (18/3/94)	54.87 (31/10/72)

■ RATIOS

	Sep 23	Sep 16	Sep 9	Year ago
Dow Jones Ind. Div. Yield	2.76	2.69	2.71	2.88
	Sep 28	Sep 21	Sep 14	Year ago
S & P Ind. Div. yield	2.38	2.41	2.37	2.51
S & P Ind. P/E ratio	20.78	20.64	20.91	27.52

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Dec	466.50	466.00	-0.45	466.95	465.80	65,067	206,332
Mar	469.55	469.35	-0.30	469.55	469.35	1,059	7,398
Jun	-	472.80	-	-	472.80	19	2,082

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Change on day
SCE	8,827,100	12⅞	-⅛
Blockbuster	5,531,100	28¼	+1
Telefonos	5,518,900	63	-1⅛
Merck	5,184,900	35⅝	-⅜
Compaq	4,448,200	32¼	-1⅛
Micron	4,242,400	34⅞	-1
Gap	3,889,700	32¼	+1⅛
Alcatel	3,285,900	19¼	-1⅛
Frpt McMor	3,161,900	19½	+⅛
Ford Motor	2,918,800	28	+⅛

■ TRADING ACTIVITY

● Volume (million)

	Sep 28	Sep 27	Sep 26
New York SE	329.648	290.312	270.626
Amex	21.433	18.262	13.137
NASDAQ	277.071	250.881	228.023
NYSE			
Issues Traded	2,860	2,885	2,855
Rises	1,387	1,008	980
Falls	795	1,169	1,143
Unchanged	688	708	732
New Highs	52	35	30
New Lows	74	131	146

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

4 pm close September 29

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
17⅜	12¼	AAR	0.48	3.7	21	100	13	12⅝	12⅞	+⅛
16⅞	12⅝	A L Labs A	0.16	1.1	37	750	16⅝	16	16⅛	+⅛
78	57⅝	AMP	1.68	2.2	27	2249	u78¼	76¾	77⅛	-⅝
72¾	51½	AMR			88	5089	52⅛	d50¾	50¾	-1¾
5	3⅝	ARX			13	151	4	3⅞	3⅞	+⅛
56⅛	38⅝	ASA	2.00	3.8	34	669	52⅝	52¼	52½	+⅜
31⅞	25⅝	AbbotL	0.76	2.4	18	5201	u31⅞	31⅛	31⅛	-¼
16¾	11⅜	Abitibi Pr	0.50	3.3	11	113	15⅛	14⅞	15	
23⅝	17¾	ABM Ind	0.52	2.5		28	21	20¾	20⅞	+⅛
15⅛	11⅛	[illegible]			27	417	14¾	14⅝	14¾	+⅛
31	22⅝	ACE Ltd x	0.44	1.8	30	3791	24⅞	23¾	24⅜	+¾
12½	9⅝	ACM Gvt In	1.09	11.1		282	9⅞	9¾	9⅞	+⅛
10⅛	7⅛	ACM GvOpp	0.80	11.2		106	7⅜	d7⅛	7⅛	-⅛
10⅝	7½	ACM Gvt Sp	0.96	12.8		254	7⅝	d7½	7½	
12	8⅞	ACM Gvt Se	1.08	12.7		637	8¾	8⅝	8⅝	-⅛
11¾	8⅝	ACM Mgn	1.08	12.9		389	8½	d8¼	8⅝	-⅛
9¼	8	ACM Managd	0.72	8.7		252	8¼	8⅛	8¼	+⅛
15½	8¾	AcmeCw	0.44	3.3	16	86	14⅛	13½	13½	-½
9⅞	8½	Acme Elect			7	61	8⅞	8½	8⅞	+⅝
28¾	23	Acordia	0.60	2.2	13	6	27	27	27	-⅛
13¾	5¾	Actava	0.38	3.6	2	321	10¾	10	10⅛	
16⅛	11¼	Acuson			125	1357	u16½	15⅞	16¼	+¾
18⅜	16½	Adams Expr	0.48	2.8	0	53	17⅛	17	17	
64	48½	Ad Micro	3.00	5.0		84	60⅛	58¾	60	-½
31¾	16¾	AdvMic	3.00	10.1	12	5832	30	29¼	29⅝	-⅜
6⅞	5	Advest Grp	0.16	3.1	8	30	5⅛	5⅛	5⅛	
20	15	Advo Inc x	0.10	0.61	14	51	17⅛	16⅞	17⅛	+⅛
59½	49⅝	Aegon ADR	1.47	2.5	12	662	58⅜	57½	58⅜	+¾

1994 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
25½	20½	BaltGE	1.52	6.5	12	3750	23¼	22⅞	23¼	+½
20⅜	13⅞	Balt Bnkcp	0.20	1.0	30	327	20⅛	20⅛	20⅛	
38	30⅝	BncOne	1.24	4.1	10	7532	30⅞	d30	30	-⅝
25½	20¾	BancoBil V	0.94	3.8	9	139	25	24¾	24⅞	-⅛
11⅝	9⅜	BancoCentH	0.72	6.5	5	3	11	11	11	-⅛
34¾	27	BcpHawaii	1.04	3.4	7	206	30⅞	29¾	30⅜	+⅝
1¾	⅞	BancTexas			37	59	1⅛	1⅛	1⅛	+⅛
63½	49⅛	Bandag	0.70	1.3	18	55	53⅝	53⅜	53⅝	+⅛
50¼	38¾	BankAm	1.60	3.6	9	12024	45¼	44¼	44⅛	-⅜
96	81½	Bank Bost	5.56	6.8		16	82	d81½	82	
28⅝	22⅛	BkBstn	0.88	3.3	11	4588	26⅞	26½	26¾	+¼
49¼	45½	Bk Bostn P	3.04	6.7		6	45⅛	d45¼	45¼	-¼
33¾	25	BankNY	1.10	3.6	5	3849	30⅜	29¾	30¼	+⅛
50½	46	BankAm A	3.25	7.1		41	46	d45¼	45½	-⅜
95	76	BankAm B	6.00	7.8		5	77	76½	77	+½
84⅝	63½	BnkTst x	3.60	5.5	5	1489	68½	65⅞	65⅞	+2⅛
38¼	30	Bclays	1.08	3.0	105	198	36⅛	35⅞	36	
30½	22¼	Bard (C R)	0.60	2.4	20	1247	24⅝	23⅝	24½	+¾
38	29½	Barnes Grp	1.40	3.7	53	3	37½	37½	37½	+⅛
48⅛	39¾	BarnBk	1.64	3.7	10	1086	44⅛	43¾	44⅛	+½
13	8⅞	BattMt	0.05	0.4	100	3784	u13	12⅝	13	+⅜
53⅞	34¾	Bausch	0.98	2.5	15	1630	39	38½	39	+¼
28¾	21⅝	Baxter	1.05	3.7	42	4167	28⅛	27⅞	28⅛	+¼
28⅜	23¼	Bay St Gas	1.48	5.9	14	31	25	24⅞	24⅞	-⅛
22½	19⅛	Bd Tr 1838	1.72	8.5		20	20¼	20	20¼	
23½	15⅝	Bear Stns	0.60	3.7	4	2433	16⅛	15⅞	16⅛	
50¼	46¾	BearS/PfA x	3.08	6.6		20	47	d46¾	46¾	
37½	27¾	Bearings	0.64	2.1	21	3	31	31	31	
32½	23	Beckman In	0.40	1.4	23	750	28⅞	28⅛	28¼	
47¾	34⅛	BectnD	0.74	1.6	16	1420	u47¼	46⅞	47¼	+¼

Continued on next page

NYSE COMPOSITE PRICES

4 pm close September 29

Continued from previous page

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AMEX COMPOSITE PRICES

4 pm close September 29

[illegible]

NASDAQ NATIONAL MARKET

4 pm close September 29

[illegible]

AMERICA

Dow runs into losses again as bonds retreat

Wall Street

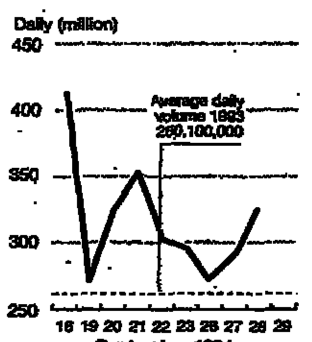
US stocks posted sharp losses yesterday morning as the bond market retreated in the face of more evidence of an accelerating economy, *writes Frank McGurty in New York.*

By 1pm, the Dow Jones Industrial Average was 24.56 lower at 3,853.62, while the more broadly based Standard & Poor's 500 was down 2.74 at 462.07. The Nasdaq composite was 3.20 weaker at 756.81, while the American SE composite was off 0.27 at 455.93.

Volume on the Big Board was moderate, with 170m shares traded by early afternoon.

With equity investors braced for another boost in interest rates, yesterday brought more evidence to support an imminent tightening by the Federal Reserve. The Commerce Department reported that sales of new homes last month had climbed 9.7 per cent to an annual rate of 703,000 units, against a revised July rate of 644,000.

NYSE volume



The stronger-than-expected readings sent bonds reeling and pushed the yield on the benchmark 30-year government issue to its highest point of the year.

With the prospect of a further rise in rates looming larger, concern over the outcome of US-Japanese trade negotiations was also growing. The collapse of the talks could lead the Clinton administration to follow through on a threat to impose sanctions on Tokyo.

Against this backdrop, blue chips opened weaker and were quickly showing solid declines. Alcoa, which has outperformed the market in recent sessions, fell back $1⅞ to $85⅞ while General Motors lost $1 to $46⅝. Goodyear was one of the few Dow industrials to improve. The stock climbed $⅝ to $33⅞ on an upgrading by PaineWebber.

Alcatel Alsthom made an appearance at the top of NYSE's most active list during the morning. ADRs in the diversified French electronics group shed a further $1¼ to $18⅝ after Wednesday's initial response to interim 1994 results well below expectations.

In the technology sector, Compaq suffered a setback when SG Warburg lowered its 1994 earnings estimate for the company. Its share price dropped $1 to $31⅛ in heavy trading of 4.5m shares.

Storage Technology plunged $2⅝ to $29⅝ after disclosing that EMC had filed a patent-infringement lawsuit against the company.

USAir's common shares lost 15 per cent of their value, dropping $⅞ to $4⅞. The decline followed the airline's announcement that it would defer dividends on its series A preferred stock because of heavy operating losses.

On the Nasdaq, stocks were generally lower, though Lotus Development managed to add $1⅝ to $36¾. But Cyrix retreated $1¼ to 43 and Apple Computer receded $⅜ to $33⅜.

Canada

Toronto was lower at midday, worried about the outlook for US inflation after the latest spate of economic data.

The TSE 300 composite index lost 18.73 at 4,353.75 in volume of 30.21m shares. Declines outscored advances by 347 to 212, with 314 issues flat.

Only two of the 14 sub-group indices remained higher at noon. Base metals led declines on falls by Inco, C$⅝ lower at C$40⅝, and Alcan, C$⅜ easier at C$35¼.

Mexico continues lower

Mexican shares fell sharply in early trade as nervous investors continued to take profits after Wednesday's murder of the ruling party secretary-general, Mr Francisco Ruiz Massieu.

The IPC index was down 29.3 or 1.1 per cent at 2,735.52, although volume was a low 3.9m shares, with Wall Street's early decline also weighing on the market.

Telmex "L" shares lost 1.3 per cent and its "A" shares fell 0.9 per cent, in line with a decline of the ADRs on Wall Street.

Brazil

São Paulo rallied 2.6 per cent in moderate midday trade as domestic and foreign investors returned to the market on bullish sentiment ahead of Brazil's presidential elections.

The Bovespa index was up 1,377 at 54,148 at 1300 local time in turnover of R$234.6m.

Gold puts cap on S Africa

Johannesburg finished mixed in mostly light trade as a softer bullion price slowed recovery attempts after heavy losses earlier this week.

Currency factors were also seen plaguing sentiment, with uncertainty about the future of the financial rand keeping some investors out of the market.

However, other investors were seen picking up export-related stocks in anticipation of the scrapping of the financial rand, since the expected resultant weakness in the commercial rand rate would boost earnings of those companies.

The overall index lost 1 at 5,638 after initially slipping to 5,623. Golds ended 37 or 1.5 per cent off at 2,427 and industrials added 21 at 6,270.

De Beers was flat at R100, but Anglos slipped R1.50 to R235.50 in line with its gold exposure. Gencor moved up 25 cents to R14.75 and SAB put on 50 cents at R83.50.

EUROPE

Alcatel leaves trail of damage across Continent

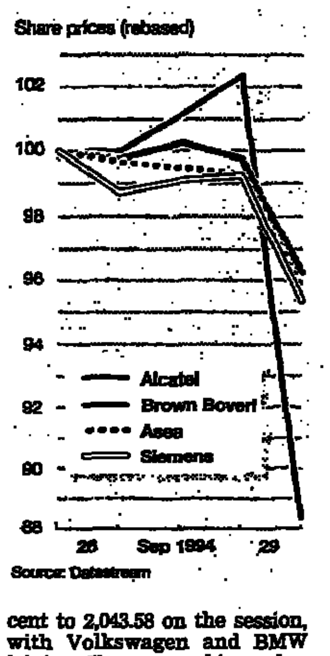
Alcatel-Alsthom's half-year results, coming in well below expectations on Wednesday evening, left a trail of damage across Europe yesterday, *writes Our Markets Staff.*

The French group's shares fell 7.1 per cent in New York overnight, and were suspended limit down in Paris before falling FFr78.30 or 13.8 per cent to a new 1994 closing low of FFr489, after FFr472.

This totally undermined confidence in the French stock market, said Mr John Blackley of James Capel, and in the electronics sector across Europe. In the afternoon, selling from the US in thin trading conditions broadened to encompass whole markets, and most of the Continent.

Alcatel's troubles in Germany were reflected in the share price of Siemens, DM25.50 or 3.9 per cent lower at DM629.50 after a painful afternoon in the Frankfurt market. In Zurich, Brown Boveri fell SFr41 or 3.5 per cent to SFr1,124 and, in Stockholm, Asea gave up SKr20 or 3.6 per cent to SKr541 amid worries that they could be hit by similar profit pressures.

FRANKFURT, initially, put in a conventional response to the Alcatel news, the Dax index falling 24.53 or 1.2 per cent to 2,043.58 on the session, with Volkswagen and BMW joining Siemens as big underperformers. Turnover picked up from DM5.2bn to DM6.7bn, reflecting the size of the names involved.



However, the afternoon saw a more extended version of the weakness that hit Paris for a while on Wednesday, and the Ibis indicated Dax hit 2,010.75 before closing 54.28 or 2.6 per cent lower at 2,016.08.

Traders saw hedge funds offloading stock, and straight investment selling from the US. BMW finished DM40 or 5.2 per cent down at DM734, and VW at DM426.50, off DM24.70 or 5.5 per cent.

The afternoon weakness took in a wide range of stocks, including Deutsche Bank, MAN (in trucks and automotive equipment), Degussa and Henkel (in specialty chemicals), Kaufhof (in retailing), and engineers and utilities.

PARIS ended 1.5 per cent down, the CAC-40 index losing 28.77 at 1,876.18. Turnover rose from FFr3.19bn to FFr5.6bn, with Alcatel accounting for FFr1.9bn of the total.

Reaction to the Alcatel figures was neither as widespread, nor as acute, as in Frankfurt, but French brokers compensated by worrying about the morning slide on Wall Street, US interest rates and inflation worries in general.

Once again results, or the anticipation of them, produced movement. Saint Louis, the sugar and paper group, rose FFr14 to FFr1,400 ahead of a 59 per cent jump in first-half net attributable profits.

In financials, BNP rose FFr3.10 to FFr239.8 ahead of its own half-year figures, but Paribas, in a similar situation, lost FFr7.80 at FFr312.2.

ZURICH fell 1.2 per cent as Wall Street weakened and the SMI index finished 32.0 lower at 2,558.0.

Trading in UBS shares was unusually heavy as the market buzzed with rumours. A key story was that UBS wanted to reduce the influence of BK Vision, the investment company controlled by Mr Martin Ebner's BZ banking group, which owns 18 per cent of UBS's registered shares and 3 per cent of its bearers.

In the event, news that UBS planned to seek shareholder approval for a single category of bearer share at an extraordinary shareholders' meeting on November 22 came after the market had closed. The bank said its intention was to prevent single shareholders of registered shares from having "excessive influence".

The SFr100 bearer shares rose SFr10 to SFr1,205 while the SFr20 registered shares fell SFr8 to SFr224. BK Vision fell by SFr50 to SFr1,450.

MILAN encountered some profit-taking after the strong run of recent sessions as budget optimism faded into the background and investors reflected on the poor half-year figures from the banking sector, which came late on Wednesday.

The Comit index fell 2.58 to 690.97. BCI dropped L121 to L3,960 while Credito Italiano, which is also launching a capital increase, shed L96 to 2,150. The results of both were hit by losses on bond portfolios.

Telecom Italia, L53 lower at L4,496, lost out to Stet, L58 ahead at L4,970, after the government said that the latter was its preferred privatisation candidate.

Fiat gave up L97 to L6,731 as the market awaited its interim results after the market closed. Analysts said later that, at first sight, the figures were sharply better than had been expected.

AMSTERDAM closed at lunchtime to reroute telephone and computer cables for today's launch of a new, computerised trading system.

The AEX Index closed 1.20 lower at 403.91, depressed by a weaker London market and lower state bonds.

BolsWessanen eased 0.30 cents to Fl 34.70: the food and drinks group had climbed Fl 1.70 on Wednesday on news it would take a stake of at least 33 per cent in Italy's Campari.

Among mixed blue chips, DSM, the chemicals group, fell Fl 2.30 to Fl 152.30 after Wednesday's strong gain.

Oce-van der Grinten rose Fl 1.30 to Fl 72.30, boosted by Wednesday's news of a distribution deal in the US.

STOCKHOLM was weaker, tracking bonds and Wall Street. The Affärsvärlden index lost 15.8 to 1,416.4. MoDo B closed SFr4 higher at SKr344, following the company's announcement of a rise in fine paper prices.

Written and edited by William Cochrane and Michael Morgan

FT-SE Actuaries Share Indices

THE EUROPEAN SERIES

Sep 29 Hourly changes	Open	11.00	11.30	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1338.82	1338.91	1338.94	1338.63	1338.32	1338.08	1334.49	1330.58
FT-SE Eurotrack 200	1381.10	1380.82	1380.75	1380.23	1378.80	1379.46	1378.06	1375.17

	Sep 28	Sep 27	Sep 26	Sep 23	Sep 22
FT-SE Eurotrack 100	1346.01	1340.34	1339.05	1343.73	1334.32
FT-SE Eurotrack 200	1388.74	1381.39	1380.89	1386.88	1377.34

Base 1000 (26/10/90). Highday: 100 - 1339.47; 200 - 1381.47 Lowday: 100 - 1330.34 200 - 1375.66 † Partial

ASIA PACIFIC

Nikkei ahead as Taipei rises 1% to four-year high

Tokyo

Buying by public pension and insurance funds, as well as investment trusts, lifted Tokyo stocks, and the 225-share Nikkei average extended its recovery with a rise of 107.52 to 19,615.12, *agencies report.*

The market ended off earlier highs after dealers adjusted their positions in the late afternoon. Before that the Nikkei 225 had hit an intraday peak of 19,732.25, up from a low for the session of 19,559.01.

Volume declined from 287m shares to 263m. Advances outpaced falls by 647 to 322, with 208 issues unchanged. The Nikkei 300 put on 1.50 at 288.69 and the Topix index of all first section stocks gained 6.68 at 1,576.27. The second section index, which lost 12.00 on Wednesday, rallied 11.20 to 2,230.63. In London the ISE/Nikkei 50 index firmed 3.86 to 1,294.17.

Professionals said the Nikkei 225's failure to break through 19,800, and caution ahead of today's deadline for the Japan-US trade talks, triggered the dealers' adjustments.

Many investors doubted that the rise could continue for long. "Share prices rise only when public funds step into the market to buy. This is an unhealthy market," said a broker at a second-tier securities house.

However, other brokers said buying will continue today, as books are closed at the half-year stage. Public funds, they added, will aim to keep the Nikkei and the Topix above their closing levels on March 31, the annual book closing day for many houses.

On March 31 this year the Nikkei 225 ended at 19,111.92 and the Topix at 1,563.21.

Among the sectors, steels and electricals saw the major gains, while the key declines were in electric power, railway/bus, non-ferrous metal, real estate and warehousing.

Steels enjoyed buying by public funds, Nippon Steel adding Y7 at Y392, Kawasaki Y9 at Y447, NKK Y4 at Y292 and Sumitomo Metal Industries Y7 at Y350. There was some speculation that South Korea's Pohang Iron and Steel Co's output could be affected by an accident at its main plant on Tuesday, although a Posco spokesman said operations were now running completely normal.

Electricals reflected the yen's overnight drop against the dollar, prompted by growing optimism among some dealers over the outcome of the US-Japan trade talks. Toshiba put on Y5 at Y753, Mitsubishi Electric Y6 at Y706, NEC Y20 at Y1,200 and Fujitsu Y10 at Y1,050.

On the second section, the newly listed Japan Telecom rallied to Y4.01m, after a new low of Y3.95m on Wednesday.

Roundup

Many of the Pacific Rim markets were under pressure.

TAIPEI, however, moved ahead 1.0 per cent to close at a four-year high on demand for financials and lower-priced blue chips by institutions. The weighted index rose 72.03 to 7,101.13 in moderate turnover of T$68.88bn.

Financials, rebounding from Tuesday's fall, had ICBC surging T$6 or 6.3 per cent to T$102.

SYDNEY was initially unsettled by bond weakness and worse than expected current account data before prices bounced back later in the day, leaving the All Ordinaries index a net 16.4 up at 2,030.6.

The banks sub-group index gained 1.1 per cent, while the oil and gas sector advanced 3.6 per cent, mainly due to a strong performance by Woodside Petroleum. Shares in the oil explorer jumped 33 cents or 7.3 per cent to A$4.87 amid speculation that the company would announce positive testing results at its 50 per cent-owned exploration well in the Timor Sea offshore Northern Australia.

Broken Hill Proprietary, which holds a 25 per cent stake in the oil well, finished 14 cents stronger at A$19.70.

SINGAPORE rose on active foreign buying of blue chips as overseas institutions returned to the market. The Straits Times Industrial index gained 18.21 at 2,348.90 in volume of 310m shares. Sembawang added 60 cents at S$12.10 and Keppel rose 30 cents to S$12.20.

MANILA rebounded in a technical rally on the strength of a 2.8 per cent rise in Philippine Long Distance Telephone.

The composite index moved up 14.27 to 2,897.96 as PLDT appreciated 40 pesos to 1,460 pesos.

HONG KONG finished flat after an early, futures related buying spree ran out of steam. The Hang Seng index closed just 6.72 firmer at 9,700.21 after a high of 9,817.51. Volume improved to HK$3.67bn from Wednesday's HK$2.98bn.

Index heavyweights dominated trade, with HSBC unchanged at HK$88 after touching HK$89.25 and Hong Kong Telecom flat at HK$15.70, off a high of HK$15.95.

Sino Land, which will join the index in February, climbed 30 cents to HK$9.025 on expectations of a good earnings statement later in the day.

SEOUL edged lower as a continued consolidation of blue chips outweighed gains by selective issues with good earnings prospects.

The composite index ended 2.24 off at 1,037.55 in volume that dropped to 42.9m shares from the previous day's 53.17m.

Analysts noted that institutional investors, whose fiscal year ends in March, had sold heavily over the past two days to book profits before the fiscal half-year finishes at the end of this month.

BANGKOK saw selling accelerate as the SET index dipped below the 1,480 support level in morning trade, before prices stabilised. The index picked up from the day's low of 1,473.11 to finish a net 11.55 down at 1,482.12 in turnover of Bt6.7bn.

Sitca Finance and Securities fell Bt10 to Bt95 on news that it was not granted a full brokerage licence.

KUALA LUMPUR extended losses as profit-taking weighed on prices throughout the day and the composite index slipped 7.15 to 1,133.68, taking the week's decline to date to 36.64.

Brokers said they expected further technical selling after the recent strong run-up, adding that sentiment was also dented by continuing rumours of an impending increase in local interest rates.

SHANGHAI's A share index dropped 77.90 or 8.3 per cent to 865.33 as investors registered disappointment at the lack of market stimulating news from the Communist Party meeting in Beijing. The index of B shares, available to foreign investors, dipped 0.59 to 81.53.

The Shenzhen A index weakened 21.94 or 9.4 per cent to 211.38 and the B index was 2.49 or 2.0 per cent down at 119.89.

BOMBAY saw a continuation of selling pressure amid concerns about the spread of plague and its impact on foreign investment, and a fall in India's overseas listed shares. The BSE 30-share index closed 50.19 lower at 4,358.30.

WELLINGTON was modestly firmer on improved turnover, with attention remaining on leading stocks, while smaller issues faded into the background.

The NZSE-40 Capital index edged forward 3.95 to 2,972.55.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	WEDNESDAY SEPTEMBER 28 1994: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	TUESDAY SEPTEMBER 27 1994: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (68)	169.49	0.0	159.22	105.77	136.29	152.28	-0.1	3.64	169.53	159.38	105.16	136.35	152.46	189.15	141.54	141.54
Austria (16)	186.44	0.7	175.13	116.34	149.92	149.85	0.6	1.07	185.23	174.14	114.90	148.98	148.92	196.89	167.46	169.59
Belgium (37)	167.04	0.6	156.91	104.24	134.32	130.96	0.5	4.22	166.08	156.13	103.02	133.57	130.29	177.04	146.42	147.04
Canada (103)	138.95	0.7	130.53	86.71	111.73	135.10	0.3	2.48	137.94	129.68	85.57	110.94	134.67	145.31	120.54	122.37
Denmark (33)	251.13	0.1	235.90	156.71	201.94	207.38	0.0	1.43	250.94	235.91	155.66	201.82	207.34	275.79	229.78	233.12
Finland (24)	178.26	0.2	167.47	111.25	143.36	182.59	0.2	0.77	177.93	167.27	110.38	143.10	182.55	181.70	109.11	108.11
France (97)	167.86	0.4	157.68	104.75	134.98	138.98	0.2	3.17	167.26	157.24	103.76	134.52	138.68	185.37	159.34	169.54
Germany (58)	141.67	0.4	133.27	88.53	114.08	114.08	0.4	1.80	141.32	132.86	87.66	113.66	113.66	150.40	127.03	128.34
Hong Kong (56)	396.86	0.8	374.68	248.90	320.73	395.67	0.8	3.07	396.56	371.89	245.39	318.16	392.45	606.56	297.20	297.20
Ireland (14)	208.05	1.4	195.44	129.83	167.30	187.91	1.3	3.39	205.26	192.97	127.33	165.09	185.48	216.60	167.75	168.66
Italy (59)	86.35	1.6	81.12	53.88	69.44	100.47	1.7	1.54	85.03	79.94	52.75	68.39	98.81	97.76	57.88	74.44
Japan (468)	159.25	-0.1	149.59	99.37	128.06	99.37	0.6	0.77	159.35	149.80	98.85	128.16	98.86	170.10	124.54	153.13
Malaysia (97)	568.00	-1.0	533.56	354.45	456.74	561.00	-0.8	1.50	573.67	539.32	355.87	461.40	565.61	621.83	411.28	413.42
Mexico (18)	2355.83	-0.8	2212.98	1470.08	1894.34	8730.47	-0.8	1.18	2374.94	2232.69	1473.23	1910.07	8796.09	2647.06	1661.23	1670.87
Netherland (27)	211.14	1.0	198.34	131.76	169.78	166.88	0.9	3.45	209.04	196.53	129.68	168.13	165.37	218.19	184.50	184.65
New Zealand (14)	72.26	-0.7	67.88	45.09	58.10	63.70	-0.6	3.75	72.74	68.38	45.12	58.50	64.08	77.59	59.22	58.47
Norway (23)	196.55	1.1	184.63	122.65	158.04	180.69	1.0	1.83	194.48	182.83	120.64	156.41	178.91	211.74	165.52	171.06
Singapore (44)	374.78	2.1	352.04	233.86	301.36	257.12	2.3	1.64	367.21	345.22	227.79	295.34	251.29	376.92	291.80	291.80
South Africa (56)	312.64	1.1	293.68	195.09	251.40	288.71	1.0	2.22	309.22	290.70	191.62	248.69	285.89	314.24	201.30	201.30
Spain (42)	141.67	1.8	133.08	88.40	113.91	137.64	1.7	4.19	139.15	130.82	86.32	111.92	135.31	155.79	128.68	137.28
Sweden (36)	226.18	0.8	212.47	141.14	181.88	249.73	0.9	1.80	224.34	210.90	139.16	180.43	247.53	251.35	175.83	191.85
Switzerland (47)	166.20	0.6	156.12	103.71	133.64	131.86	0.4	1.84	165.22	155.33	102.48	132.86	131.29	176.56	139.55	141.24
United Kingdom (204)	195.27	1.0	183.48	121.85	157.02	183.43	1.0	4.14	193.25	181.68	119.88	156.43	181.68	214.96	181.11	187.58
USA (516)	189.74	0.6	178.23	118.40	152.57	189.74	0.6	2.87	188.61	177.31	117.00	151.69	188.61	196.04	178.95	188.73
EUROPE (717)	170.71	0.8	160.36	106.53	137.27	150.65	0.8	3.09	169.29	159.15	105.01	136.15	149.50	178.58	154.79	157.87
Nordic (116)	218.94	0.6	205.68	136.62	176.05	206.78	0.6	1.43	217.72	204.68	135.05	175.10	205.59	222.18	173.19	180.91
Pacific Basin (749)	169.20	0.0	158.94	105.59	136.06	110.48	0.5	1.09	169.21	159.08	104.97	136.09	109.94	176.86	134.79	157.77
Euro-Pacific (1465)	169.71	0.3	159.42	105.90	136.47	126.54	0.6	1.94	169.12	158.99	104.91	136.02	125.77	175.14	143.88	157.70
North America (619)	186.58	0.6	175.27	116.43	150.03	185.95	0.6	2.85	185.46	174.35	115.04	149.16	184.87	192.73	175.67	184.63
Europe Ex. UK (513)	153.66	0.7	144.34	95.89	123.56	130.98	0.7	2.47	152.58	143.42	94.64	122.70	130.12	158.12	135.94	138.63
Pacific Ex. Japan (279)	265.22	0.3	249.14	165.51	213.27	238.14	0.3	2.75	264.51	248.67	164.08	212.74	235.40	298.21	203.33	203.33
World Ex. US (1645)	171.78	0.4	161.38	107.19	138.13	130.44	0.6	1.95	171.16	160.91	106.18	137.66	129.67	178.65	145.58	157.89
World Ex. UK (1957)	174.90	0.4	164.29	109.14	140.64	146.21	0.6	2.08	174.24	163.80	108.08	140.13	144.40	178.59	155.96	165.21
World Ex. So. Af. (2102)	175.84	0.4	165.18	109.73	141.39	147.88	0.6	2.27	175.08	164.59	108.61	140.81	146.81	180.03	158.64	167.08
World Ex. Japan (1692)	187.98	0.7	176.59	117.31	151.16	177.81	0.6	2.90	186.76	175.58	115.85	150.21	176.72	195.20	176.60	176.57
The World Index (2161)	176.71	0.4	165.99	110.27	142.09	148.72	0.6	2.27	175.93	165.39	109.13	141.48	147.84	180.80	158.95	167.18

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World ECONOMY & FINANCE

Although the present global economic recovery appears to be well on course, it is impossible to look to the future with unqualified optimism. Worries, such as inflation and unemployment, still abound. ***Peter Norman****, Economics Editor, reports*

The good news is that the global economy is growing well. But except in the newly industrialising countries of east Asia, few people seem to feel it.

Although world output this year is likely to grow faster than at any time since 1989, the recovery from the slow growth and recession of the early 1990s is fraught with uncertainty.

Fast and far-reaching changes are everywhere – in international relations, domestic politics, economics and business – unsettling policymakers, entrepreneurs and employees in developed and developing countries alike.

A year ago, few commentators in the industrialised world would have bet on there now being a robust upturn in the United States, a well-established recovery in the UK, a strong bounce back from recession in Germany and the first signs of Japan pulling out of its worst economic downturn since the second world war.

Outside the industrialised world – defined as the 25 member countries of the Organisation for Economic Co-operation and Development – the overall picture is even better.

A number of developing nations have emerged as the engines of global growth in this decade. The International Monetary Fund has forecast that the developing economies as a group should grow at about twice the rate of the industrialised countries this year and next.

New economic powers are emerging that should give the world economy an added boost as it heads into the next millenium. Latin America, although not without problems, has largely pulled free of the debt crisis that made the 1980s that region's "lost decade". China may be struggling to control inflation and runaway growth. But it is likely future historians will declare that country's emergence as one of the world's economic power houses to be *the* economic event of this decade.

Economically, the world still stands to reap some benefits from the end of the cold war. One consequence – peace and a democratically-elected government in South Africa – could, with luck and good judgment, open up new vistas of prosperity for that country and the continent as a whole. Events over the past 12 months have made it possible to think of peace and economic co-operation among the countries of the Middle East for the first time since the second world war.

But it is impossible to look to the future with unqualified optimism. The collapse of communism has brought problems as well as promise. Worries abound. The present global upswing is proving anything but comfortable.

Inflation is a case in point. It appears broadly under control, in spite of a surge in commodity prices. Subdued inflation holds out the hope that growth can be sustained. Yet financial markets are sceptical and thrown into turmoil at the slightest hint of rising prices.

While "tiger" economies such as Singapore, Thailand and Taiwan continue to attract foreign investment and climb up the league tables of international competitiveness, other developing countries continue to be plagued by corruption, famine and civil war.

There is the still unresolved problem of unemployment – a tragedy for some 35m people in the industrial countries and countless millions elsewhere.

For many in work, there is constant and unsettling change at the workplace as companies restructure and strive to become more efficient.

This turmoil in the world of work reflects two forces over which governments and individuals have very little control: globalisation and technological change.

The world is shrinking daily as the costs of computing power and telecommunications fall. The multimedia revolution, harnessing the computer, telephone and television, is generating new products and services such as the Internet, which may be the precursor of the much-trumpeted global information superhighways. Multimedia could prove to be as significant in the development of mankind as the harnessing of steam and the development of the railways in the 19th century or the exploitation and spread of electric power in the early years of this century.

But new competitors are emerging at a bewildering speed to challenge established companies and ways of conducting business. In a world where knowledge is increasingly perceived as the key to prosperity, giant industrial and commercial corporations can quickly become dinosaurs. The decline of IBM, once a synonym for the world computer industry, is symptomatic of the acceleration of change. In today's world, problem industries are just as likely to be high-tech as they are to be smokestack.

Symbolising and promoting the frenetic development of the global economy are the financial markets. The liberalisation of capital markets around the globe and the falling cost of telecommunications have greatly increased their turnover and volatility and their capacity to sway events.

A few years ago, an article such as this would have focused almost immediately on the role of governments and economic policymakers as initiators of change. Today, policymakers are lucky if they can avoid being overwhelmed by events. Technological and geopolitical changes have turned many of them into bit players on the world economic stage.

Take the case of Alan Greenspan, the powerful chairman of the Federal Reserve Board. True, he caught financial markets on the hop with his decision to nudge short-term US interest rates upwards by a quarter percentage point in February. But what was supposed to be a prudent, well-signalled pre-emptive move that would demonstrate that the US monetary authorities were well in control of the domestic economy had unforeseen consequences.

It ushered in months of market instability as bond investors and marketmakers jostled to restructure their holdings with as little loss as possible. The upshot has been an upwards movement of long-term interest rates of far greater significance for the world economy than Mr Greenspan's initial and subsequent monetary tightenings.

Because they process the many billions of dollars worth of investments flowing across national borders each day, the markets have become the police, judge and jury of the world economy – a worrying thought given that they tend to view events and policies through the distorting lenses of fear and greed.

The collapse of communism – symbolised by the fall of the Berlin Wall five years ago – was hailed by many as marking the victory of free market liberalism. For Francis Fukuyama, a US academic, it even signified the end of history. Today we know better. Instead of ending history, the end of communism and the cold war merely opened a new chapter, giving rise to new tensions as well as new opportunities.

This summer's migration of boat people from Cuba to the US in search of a better life was an example of the forces unleashed by the ending of the old balance of power.

The trade dispute pursued with such zeal by the Clinton administration against Japan over Japan's supposedly excessive trade surplus shows how friends can fall out when the common enemy has disappeared.

The end of the cold war may yet exacerbate rivalries between the established and newly-industrialising countries by adding a new dimension to the process of globalisation.

Globalisation has been one of the more significant developments in the industrialised world over the past 15 years. Driven by the desire of companies to produce and sell goods and services in more markets, it has led to the spread of corporate operations across borders through international investment, trade and collaboration for purposes such as product development, production, sourcing and marketing.

According to the OECD, globalisation has entailed "a turbulent process of birth and death of firms, the rise and fall of whole sectors of *activity and the re-allocation of production within, as well as between, regions and countries*". As many as one in 10 jobs a year have been *destroyed by this process. But it has* also created employment on a similar scale.

It is because globalisation has so far taken place mainly within the group of industrialised countries that the destruction and creation of jobs on this scale has been socially and politically acceptable. According to this year's World Investment Report from the United Nations Conference on Trade and Development (Unctad), multinational companies employ nearly 10 per cent of paid non-farm jobs worldwide. But nearly a fifth of non-farm jobs in the industrialised countries are provided by multinationals.

This may not be the case in the future. The fax machine, for example, already allows professionals in *India to do routine architectural or* audit work for clients in Britain at a fraction of the cost of UK-based companies.

Prof Fritz Scharpf of Germany's Max Planck Institute has pointed out that the end of the Soviet Empire and the disappearance of the rival ideology to capitalism has made it safer for companies to invest in low-cost countries without fear of expropriation.

Only a small number of developing states have so far emerged to challenge the industrialised economies. According to International Economy, a US magazine, Clinton administration officials have identified a "big 10" particularly promising developing countries that are growing about twice as fast as the rest of the world. In about five years, South Korea, greater China (including Hong Kong and Taiwan), Indonesia, India, South Africa, Turkey, Poland, Mexico, Brazil and Argentina will together account for about the same share of world imports as either Japan or the European Union, they believe.

If true, that should be good news for the industrial countries. It should mean more opportunities for their exporters.

But, relative to the rest of the world, such changes would reinforce the slow but steady diminution of the industrialised countries' economic strength that has underpinned their status and influence; and this despite their undisputed domination of certain key areas of production such as computers, aircraft and – still – automobiles.

IMF figures show that growth in the developing countries (excluding former communist states making the difficult transition to market-based economies) has only once fallen below 4 per cent in the past *eight years. Growth in the industrial world has only once risen* above 4 per cent in the same period.

In June, the OECD upgraded its *growth forecasts for its member* countries to 2.6 per cent this year and 2.9 per cent in 1995. Although such growth would be a marked improvement on performance in the early 1990s, it will be insufficient on its own to deal with the OECD countries' economic problems and especially with unemployment.

At the OECD's annual ministerial meeting in June and at July's Group of Seven summit in Naples, the industrialised countries resolved to embrace innovation and adapt. They agreed to reject protection, encourage enterprise, pursue deregulation and make their labour markets more flexible.

As evidence of their determination to tackle unemployment, the OECD countries this summer adopted a report with about 60 specific recommendations to expand job opportunities. These will be used by OECD member states to *fashion tailor-made policy* programmes with the help of the Paris-based organisation.

But the last decade of the 20th century is proving a difficult time for democratically-elected governments in the developed world. No class or group of workers is escaping the effects of structural change. The swollen budget deficits that are the legacy of recession and too many years of rewarding political support with social largesse remain to be tackled. In managing change, ministers and officials have to take unpopular decisions.

For that reason, governments *often agree to change and then* have difficulties implementing it. One example is the Uruguay Round of trade liberalising measures which, after having been signed with great fanfare in Marrakesh, Morocco, in April, still awaits full ratification.

For years the developed countries have promised to *cut farm subsidies*, recognising correctly that they hurt their own taxpayers and consumers and rob poorer developing nations of a comparative advantage. Yet in its latest annual review of farm policies and trade, the OECD estimated that combined transfers to agriculture from consumers and tax payers in its member countries fell by less than 1 per cent to just over US$335bn last year compared with 1992.

However, it would be wrong to paint too gloomy a picture of the industrialised world's prospects. The sharp drop of 376,000 in Britain's unemployment since December 1992 could be a sign that labour market reforms, along the lines advocated by the OECD, can be effective. The fall in UK joblessness has been unusually early in the cycle.

Germany's stronger than expected upturn this year has confounded those critics who argued that its industries were inflexible and its working practices sclerotic. *For the past 30 years*, the US has shown itself to be an engine of job creation with the result that unemployment stands at about 6 per cent compared with *around* 11 per cent in the European Union. But the US surge in employment has not been matched by growth in wages. Between 1978 and 1993 average US real wages stagnated.

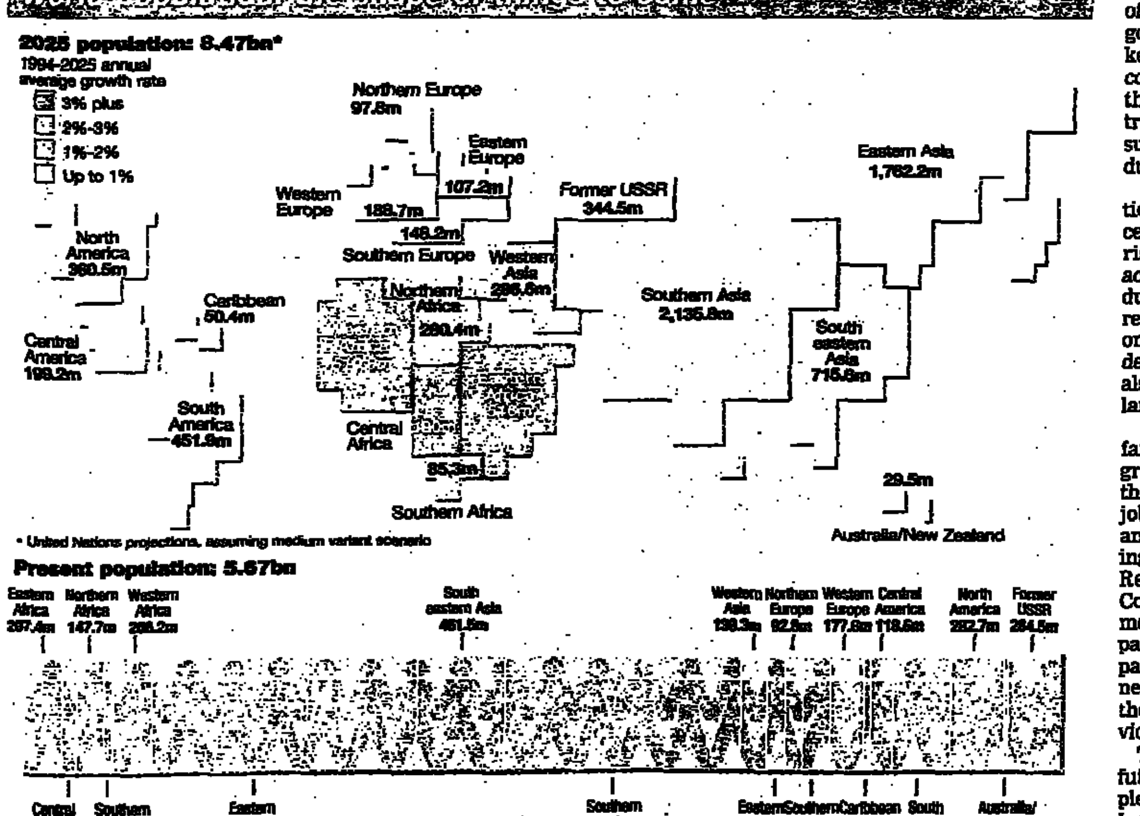
As the US labour market shows, the economy of the industrialised world is a complex mix of good and bad. The same is true of the developing world where conditions vary greatly from country to country.

There are the successes of the rapidly growing east Asian and Latin American economies which have embraced market-based economic policies – often more enthusiastically than the big industrialised economies. On the other hand, resource-rich Russia and the Ukraine are still struggling with the cultural, political and administrative problems of moving from command economy systems to market-based economies.

The tribal slaughter in Rwanda, the boat people trying to leave Cuba and Haiti and the conflicts that

Continued on page 32

World population: the shape of things to come



Source: United Nations Population Fund

The next 30 years will see another 3.5bn people added to the world's population, according to projections by the United Nations Population Fund. What is more, those startling estimates assume that fertility rates – the average number of children borne by a woman – continue to fall in most developing countries.

Even though family sizes have been falling as economic and social development occurs, and as contraception becomes widely available, developing countries have also seen life expectancy soar in the past 40 years from 41 to 61 years.

As a result, industrialised countries can expect their share of the world's population to shrink given their slow rates of population growth: at present about 1 per cent a year in North America, 0.5 per cent a year in the former Soviet Union and 0.3 per cent a year in western Europe. Meanwhile, their populations are ageing: the UN expects the proportion of people aged 65 and over in industrialised countries to rise from the present 12.7 per cent to 18.4 per cent by 2025.

The UN warns that population growth will put huge strains on the supply of natural resources such as forests, fish and clean air. Industrialised countries should also brace themselves for increased migratory pressures. But it dismisses fears of a global food shortage, pointing out that over the past 10 years, the world's food production has increased by 24 per cent, faster than population growth.

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World Economy and Finance: 2

FINANCE AND INVESTMENT

Banks: in Europe, many are moving into an acquisitive phase, says **John Gapper**

Healthy again but more cautious

The world's banks are in very good health. If that seems an odd view in a year when Japanese banks are still struggling to recover from the 1980s, when bank shares fell sharply after US monetary policy tightened, and two large European banks went through severe financial crises, consider this:

■ In the US, which sets a pattern for banks in industrialised countries, high interest margins and profits from securities trading have rescued banks spectacularly from the trough of 1989-90. Retained earnings have let them build up capital to the point where many bought back shares this year.

■ In the UK, the European economy which has recovered fastest from recession, banks' provisions against bad debts halved in the first six months of the year. Banks' return on equity rose to about 20 per cent, provoking protests from consumers and staff unions that they were making excessive profits.

■ In Hong Kong, the financial centre which has benefited strongly from the boom in trade and capital flows among the emerging Asia-Pacific economies, banks have reaped huge gains. HSBC Holdings gained 63 per cent of its profits from the UK colony although only 29 per cent of its assets are there.

The banks' state of health in most large economies is such that many have started to worry about being over-capitalised. In contrast to the crisis in the US at the turn of the decade when banks such as Citicorp were highly leveraged, financial ratios have started to look excessively prudent.

It has also led to a renewed spate of consolidation in the US, where banks have competed to buy each other. Banks are being bought at more than twice their book value, compared with share trading levels of between 30 and 40 per cent of book value for the worst affected banks four years ago.

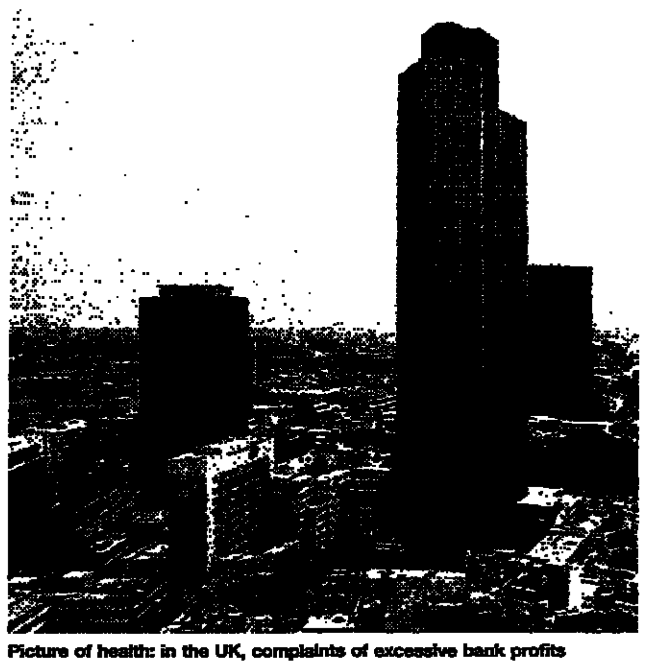
Worry over capital is less intense in Europe, where capital ratios are lower. But moves such as Lloyds Bank's £1.8bn bid for Cheltenham & Gloucester Building Society, and Swiss Bank Corporation's $750m purchase of the US asset manager Brinson Partners, show banks moving into an acquisitive phase.

The recovery of world banks stems from three factors:

■ Steady falls in short-term interest rates in the US until February established a sharply sloped yield curve which let banks make large and stable securities trading profits. This pattern was followed in Europe until the rise in bond prices which took most banks by surprise in February.

■ The large bad debt provisions made at the turn of the decade and in the early 1980s first against problem country debt, and then against lending in OECD countries have dropped sharply. The release of problem country provisions following debt re-scheduling has contributed to banks' profits.

■ The shock of low profits – and some losses – led to banks re-pricing assets and imposing higher fees and commissions.



Picture of health: in the UK, complaints of excessive bank profits

This has raised operating income and return on assets to well in excess of the late 1980s. Net interest margins for US regional banks stood at 4.8 per cent during 1993.

Such factors have helped banks in industrialised countries which were badly affected by real estate problems to recover faster than expected. In Scandinavian countries, where banks were given public support in 1991, banks are preparing for privatisation after half-year results showing a strong recovery.

World banking has not been without its crises in 1994. In Spain, there was the near-collapse of Banco Espanol de Credito after over-rapid expansion. In France, Crédit Lyonnais also faced a large crisis leading to the imposition of a new management after years of aggressive growth.

In addition, the universal banking system of continental Europe has come under increased scrutiny. The Schneider affair has damaged the reputation of Deutsche Bank, the monolith of German banking. It has also raised questions about whether banks are fit holders of equity stakes in companies.

The process of bank privatisation in Europe, combined with the growing influence of institutional investors, is likely to lead to a divestment of industrial holdings. The shake-up of Banco Portugues do Atlantico as a result of a hostile bid by Banco Comercial Portugal is one example.

The biggest crisis has been in Venezuela, which defied the trend for Latin American banks to attract increasing interest from overseas investors. The government has provided more than $7bn of aid to some of the best known banks following the failure in January of Banco Latino and runs on other banks.

Venezuela is the exception in a generally sunny picture for the world's banks. But there are already signs that the rest of the decade may not prove as clement as the first half for banks. Although operating profits are strong, they are under pressure in a variety of ways in OECD countries.

One problem is that the traditional growth in loan demand seen in economic recovery has been late in coming, and weak where it has emerged. Growth has resumed in the US, but banks remain cautious about taking on assets related to property, and balance sheets are not expanding fast.

A second difficulty is that windfall profits last year from trading ended abruptly following a rise in US interest rates. This led to sharp falls in operating profits at banks with big trading books. Operating profits before provisions fell by 45 per cent in the first half at Swiss Bank Corporation.

Finally, banks face an uncertain regulatory climate. The Basle committee of international banking supervisors is now working on new rules for capital to be applied to securities and currency trading. This could lead to higher charges, even if banks are allowed to use their internal risk models.

The IMF/World Bank meeting is an opportunity for banks to remind themselves how much better times are than in the days of the problem country debt crisis and the OECD recession of the late 1980s. For now, they have a lot of capital at their disposal; it remains to be seen how long it will last.

Investment banks: in the US, they have been forced to tighten their belts, says **Patrick Harverson**

Clouds gather as tide begins to turn

The impact of the steady rise in US interest rates engineered by the Federal Reserve this year has been felt around the world in stock, bond and currency markets. The value of financial assets has not only suffered, but clouds have been cast over the outlook for industrialised economies.

Yet, nowhere has the impact of the Fed's actions been more keenly felt than on Wall Street. After three years of unprecedented prosperity, the fortunes of US investment firms have deteriorated in the past two quarters, and many firms – both big and small – have begun to lay off staff in an attempt to rein in costs.

The downturn in earnings among the leading investment banks this year has been dramatic. Every one of the big Wall Street firms posted lower earnings in the second quarter. Morgan Stanley's profits fell 46 per cent, Bear Stearns' profits tumbled 74 per cent, Lehman Brothers' revenues slid 22 per cent, J P Morgan's trading revenues were more than halved, and Salomon Brothers incurred a loss of $410m.

Even Merrill Lynch, which as an "integrated" securities firm is partially protected from a declining investment banking business by its hefty presence in broking and asset management, saw its profits fall 37 per cent.

Although the declines are not as disturbing as they may seem at first glance – earnings were falling from the record highs that were achieved during 1993 – there is little doubt that the investment banking cycle has turned a corner. From 1990 to the end of 1993, US interest rates tumbled to their lowest levels for more than 30 years, sparking a boom in securities trading and underwriting the like of which had never been seen before on Wall Street.

However, since the Fed decided to slow down the pace of economic growth and stave off inflation by sanctioning an interest rate rise in early February, the tide has turned. By mid-August, there had been five monetary policy tightenings which pushed short-term interest rates up from 3 per cent to 4.75 per cent and long-term interest rates up from just over 6 per cent to 7.5 per cent.

Investment banks have been hard hit by the rise in interest rates because rising rates have had a negative impact upon their business in three distinctly different ways.

First, higher rates have depressed bond and stock prices in the US and overseas. Lower securities prices have shown up on investment banks' books in the form of lower trading profits as traders' short-term strategies – many of them based on an outlook of low and stable interest rates – unravelled. Some banks' problems have been exacerbated by their use of derivative instruments, which can exaggerate the negative impact on securities prices of rising interest rates.

Equally as damaging, banks started to run up huge paper losses on their securities inventories, because they were buying stocks and bonds from distressed customers that they could not sell on again. It was a sharp drop in the value of its inventories that was the chief factor behind Salomon's huge loss in the second quarter. Also, the rise in rates has contributed to unsettled global foreign exchange markets, which has left big investment banks nursing large currency trading losses.

Second, higher rates have led to a slowdown in securities underwriting, traditionally one of the most profitable businesses for investment banks. When rates are low, companies rush to borrow money on the capital markets, mostly by issuing debt. Banks reap the rewards as underwriters and traders of that debt. But since interest rates began to rise in February, demand for banks' debt underwriting services from corporations has steadily fallen. At first, underwriting volumes held up quite well, but as it became clear that rates were going higher, volumes plunged. In the second quarter this year, companies issued debt in the US worth $161bn, down 42 per cent from a year earlier.

Underwriting activity in the equity market has also eased, mostly because the fall in share prices has created a climate unfavourable to new stock issues. Over the first half of the year, the issuance of new shares by companies in the US fell 21 per cent to $37.6bn.

Third, higher interest rates have had a direct impact upon investment banks' finances. The industry's earnings between 1990-1993 were so strong because the slope of the yield curve – which tracks the relationship between the yield on a security and its maturity – was unusually steep. This allowed banks to take out short-term loans at around 2 per cent to 3 per cent, and invest the proceeds in longer-term securities paying out interest rates of between 5 per cent and 7 per cent.

Since the Fed began tightening monetary policy, short-term interest rates have risen faster than long-term interest rates, thus flattening the slope of the yield curve and reducing the banks' ability to reap large profits on their interest earnings.

As investment banks' profits have fallen, so management across Wall Street has been forced to tighten their belts. For the first time since early 1990, a group of big firms have announced sizeable lay-offs. In August, Merrill Lynch, the industry leader, cut 90 people from its fixed-income department. That came a week after PaineWebber, another "integrated" firm, trimmed its bond department payroll.

More recently, Smith Barney dismissed 15 investment bankers, including several managing directors.

The lay-offs, however, are a precautionary, rather than a panic, move. In spite of the difficulties of 1994, investment bankers are not unduly pessimistic about the longer-term outlook.

However, the interest rate outlook is unclear. Analysts remain to be convinced that this year's tightening by the Fed is having the desired effect of slowing the economy and keeping inflation under control.

Also, amid the gloom about falling bond prices, and declining trading profits and underwriting revenues, there is one bright spot in investment banking – the continued revival in the mergers and acquisitions business.

This year, M&A activity has been strong, with a series of huge deals in the telecommunications, entertainment, health care and defence industries keeping investment bankers busy.

Back in 1988, an internal memorandum at J P Morgan outlined the ambition: within five years, the prestigious but somewhat staid US commercial bank would earn $200m-$300m a year before tax from the securities business.

It proved a massive under-assessment. Due in large part to the most benign bond markets in memory, earnings in 1993 from the securities markets soared. Revenues from trading topped $2bn (more than twice the level of the year before.)

It was a powerful endorsement for the strategy pursued by Sir Dennis Weatherstone, the bank's chairman and chief executive since the beginning of 1990. A Briton by birth, Sir Dennis (he was knighted in 1990) had risen through the ranks at J P Morgan over 47 years (48 by the time he retires at the end of this year.)

Taking over from long-time chairman Lewis Preston, Sir Dennis inherited a plan first outlined at the bank in the late 1970s.

A secular decline in the lending business and the growth of capital markets threatened Morgan's long-standing and influential relationships with some of the US's most powerful corporations. The answer, the bank decided, was to extend its reach into the underwriting and trading of securities, becoming a US version of the universal banks which bestride the commercial and investment banking businesses in continental Europe (though at the time, US regulation required a strict separation between the two.)

Under Sir Dennis, Morgan has made greater headway in implementing that plan than anyone expected. Given powers to underwrite and trade corporate bonds in the US in 1989 and, a year later, to enter the equity market, Morgan has made rapid strides in the capital markets business –last year, it ranked seventh in the US league table of debt and equity underwriters. Also, aided by the triple-A credit rating that makes it an attractive counterparty in the swaps markets, the bank has become one of the big Wall Street trading houses.

Earlier this month, Sir Dennis announced his intention to retire at the end of the year, shortly after reaching the age of 64. He collected $6.6m in compensation in 1993 for his efforts and the plaudits of US banking analysts.

Profile: Sir Dennis Weatherstone

Wall Street's knight to quit

Yet for all that, the British-born chairman leaves the bank with nagging questions hanging over it. Wall Street remains sceptical about Morgan's earnings prospects: having reached a high of close to $80 a year ago, the bank's share price has slipped to a little over $60 now. At a multiple of around nine times estimated 1994 earnings, the market is indicating it has yet to be convinced of the consistency of the new Morgan's performance.

It is the bank's greater involvement in the trading business, which fuelled 1993 earnings, that lies behind the concern. With the turn in US interest rates and the end of the bull market in bonds around the world early this year, Morgan's trading revenues have sagged. Compared with average quarterly earnings from trading of more than $500m in 1993, the first two quarters of this year produced an average of $292m. Are the new Morgan's earnings as volatile as any other investment bank, soaring and plunging with the markets?

Sir Dennis has been close to the financial markets for much of his life. Starting out at the age of 16 as a clerk in the foreign exchange department of the London office of Guaranty Trust (which later merged with J P Morgan,) he rose to become head of foreign exchange. With his north London, working class background he was made an unlikely chairman of the US's most prestigious corporate bank.

Sir Dennis refuses to be drawn into a discussion about how the stockmarket values Morgan. "No chairman is ever happy with his share price," he muses. However, he defends Morgan against charges that its profits are now prey to the vagaries of the financial markets.

For a start, the bank's trading revenues suffered less than many of its investment banking rivals during the turbulent first half of the year. "Trading in difficult markets, we've done very, very well," he says.

Also, he argues, Morgan has a strong core of earnings from trading with corporate and institutional customers, and does not rely on profits from dealing for its own account. It is a familiar argument, but one which the market continues to treat with some caution.

While the volatility of earnings remains the biggest concern, there are two other big questions which Sir Dennis's successor, Douglas Warner, will have to face.

First, for all its successes, Morgan has yet to break into the so-called "Bulge Bracket" of banks which dominate the underwriting business in the US – Merrill Lynch, Goldman Sachs, Lehman Brothers, Salomon, Morgan Stanley and CS First Boston. Although the leading underwriter outside this pack, its market share last year was less than half that of its next biggest rival, CS First Boston. And while it made a quick mark in the bond business, climbing rapidly up the underwriting league tables, the equity market is proving more difficult.

Sir Dennis cautions against paying too much attention to league tables. Morgan's plan has involved building on its existing corporate relationships, he says. The trick is to keep expanding the range of services it performs for those customers, rather than to rush out to buy market share.

Second, Morgan will have to tread the fine line between exerting a more aggressive stance on behalf of its customers, while protecting its own high-quality reputation. It is a balance that the bank has struck well so far – though paradoxically, that very success throws into sharp relief any errors of judgment.

That became clear earlier this year, with the upheaval at Banesto, a Spanish bank in which a Morgan-organised investment partnership had invested $160m.

"With the benefit of hindsight, it doesn't look too good," says Sir Dennis. "I don't think it was our glorious moment . . . But we're not going to go through our business and not make any mistakes, anywhere."

Richard Waters

World Economy and Finance: 4

Central banks: independence is the fashionable nostrum of the day, says **John Plender**

Disinterested protectors of the public good

The reputation of central bankers as a professional caste has seen a renaissance over the past 15 years. Once regarded as hard-faced proponents of financial orthodoxy – a not wholly undeserved reputation in the light of their performance in the 1930s – they are now increasingly seen as disinterested protectors of the public good. Such is the trust in these new Platonic guardians that elected politicians have been prepared to delegate to them the conduct of monetary policy, sometimes within a framework of minimal accountability. Central banking independence, in whatever form, is the fashionable economic nostrum of the day.

This remarkable turnround owes as much to the dismal experience of monetary policy under the management of politicians as it does to the central bankers' own recent record. The great disinflationary successes of the 1980s and 1990s were, after all, achieved at considerable cost. Paul Volcker's experiment with money supply targetry at the US Federal Reserve caused havoc in the economies of primary producers, while draining the developed world of liquidity. The first world survived and prospered, largely thanks to the Reagan administration's global exercise in fiscal expansionism; but it took a huge and protracted joint effort with the International Monetary Fund to put Latin America back together again.

Meanwhile, the Bundesbank's heroic efforts to preserve monetary stability in the face of the fiscal strains arising from reunification look as though they may shortly be successful. Yet the victory will have been won at the cost of a painful shock to the rest of Europe, where countries that linked their fortunes and currencies to the D-Mark experienced a severe loss of output.

Yet, the real villains of the piece in the first three decades of the post-war period were arguably not the politicians but the economists. It was they who claimed that there was a trade-off between inflation and employment, and that it was possible to attain full employment by expanding demand. As people's expectations began to adjust to the inflationary

Interest rate changes are being made in response to forecasts of inflation in two years' time

consequences, the longer term trade-off between inflation and employment disappeared. Politicians still had an incentive to reflate for electoral advantage since this continued to have a short-term, if waning, impact on output. But the long run impact on anything other than inflation was negligible.

As well as destroying the political legacy of Keynes, this perception, which became the conventional wisdom after the oil shock of the mid-1970s, changed the objectives of monetary policy. If the expansionary escape route from unemployment no longer existed, economists were forced to conclude that the most that demand management could achieve was to stabilise the price level. The attempt to lower the natural rate of unemployment was left to fiscal policy and to supply side measures which sought to change the structure of markets.

At much the same time central bankers were struggling to come to terms with the technicalities of monetary control in the post-Bretton Woods world of fluctuating exchange rates. They sought a mechanistic alternative to the discretionary manipulation of short term interest rates; an alternative, moreover, which would help ward off the political pressures which ensured that interest were invariably raised too little, too late. There followed a series of experiments in money supply targetry which foundered in the 1980s on the rock of an increasingly unpredictable velocity of circulation.

Today, the central bankers have been forced back on to discretionary changes in interest rates in their tireless pursuit of price stability. Yet the discretion is tempered by changes in the structure of the relationship between central banks and governments, which include numerous moves towards independence. Technical problems remain because of the long time lags involved in monetary policy. Interest rate changes are being made in response to forecasts of inflation in 18 months to two years' time. The question is whether this approach will prove any more effective than what went before.

Academic research suggests that independent central banks do preside over lower rates of inflation, though there is little difference in growth and employment when compared

Demography points to a strengthening of the independence movement in Europe

with less independent systems. Equally important, central banks tend to be granted independence in those countries where there is a powerful constituency for stable prices. Does such a constituency exist across the whole of the developed world?

Tightening policy in the midst of an expansion hurts debtors. It also hurts those who invest in expectation of future growth and inflation, as well as primary producers and the economically weak. The beneficiaries are creditors, those manufacturers who need longer-term stability in order to plan and the economically strong. That suggests a political divide between the small business people, the farmers and the poor on one side, and the rich, the elderly and big business on the other.

Yet the evidence does not point to a predictable left-right alignment on independent central banking. In New Zealand it was introduced under a Labour government. The new South African government, which carries residual baggage from the failed communist experiment, has opted for an independent central bank. Even in the UK there are advocates of independence in the Labour ranks. The reason is that left-leaning governments stand to gain most from such a move because they have the greater problem of credibility with markets.

That said, demography points to a strengthening of the independence movement in Europe where populations are ageing, because approaching retirement makes people more anxious to preserve the value of financial assets. The European Monetary Institute may in due course satisfy that aspiration.

The risk in all this is that expectations will be pitched too high, or that there will be a re-run of the 1930s. Where independent central bankers have no mandate or instinctive inclination to address problems of deflation they may be slow to respond to a sustained contraction in demand. US Fed chairman Alan Greenspan has admittedly emerged superbly from just such a challenge. Whether his successor, or his opposite number in some future European monetary union, will prove half as good on either inflation or deflation is another matter.

Fiscal problems: **Stephanie Flanders** on debt crisis fears

Curing deficit hangovers

It has been a long time since the risk of a rich nation defaulting on its debt seemed worth considering. Yet in some countries, the financial markets seem to be taking it very seriously indeed. By and large, investors are not simply punishing governments for the high level of their debt, but showing doubts about their political will to reduce it.

Most of the world's industrialised nations emerged from the recession with hefty bills to pay. On average, the Organisation for Economic Co-operation and Development calculates that member governments' budget balances deteriorated by 3 per cent of GDP over the period. For some countries, as much as half of the budget deficit was "structural", which meant that it could only be cured by taking additional measures to raise revenues and/or cut spending.

By the start of this year, many had put such measures in place. As the graph shows, the effect of both fiscal tightening and continued economic growth should start to stabilise the level of gross government debt in the OECD area by 2001 at around 70-75 per cent of combined GDP. But that compares with an average of around 40 per cent at the end of the 1970s. A larger proportion of public spending, currently around 7 per cent, on average, must now be used to pay debt interest, compared to 3½ per cent in 1979.

When debt levels are high, there is little scope for governments to make mistakes about future economic growth, or the path of government spending. For a country with a debt ratio of 100 per cent, for example, every 1 per cent increase in the gap between the nominal interest rate on the debt and the rate of nominal GDP growth adds a further 1 per cent of GDP to the interest burden.

Indeed, if the interest rate on the debt also exceeds GDP growth in real terms, a country must run a primary budget surplus – a surplus of revenues over spending, excluding interest payments – just to keep the debt/GDP ratio constant. That puts tremendous pressure on elected governments. Raising taxes to pay off debt is even less popular than raising money for higher public spending.

Though several face this task, the financial markets seem to have decided that Sweden, Italy and Canada are the most likely to fail. In at least two of these, this is because there is an especially large gap between what politicians need to do and what they seem able to do.

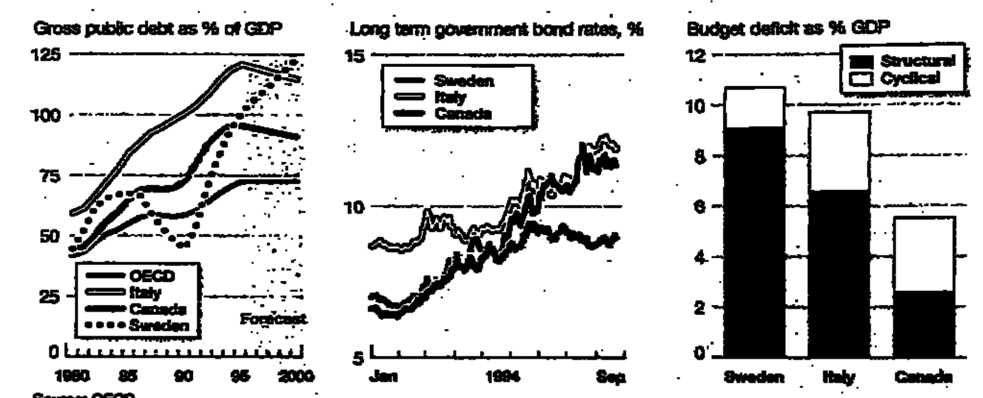
Sweden clearly faces the toughest battle. Having suffered the deepest recession since the 1930s, the country had a budget deficit of close to 14 per cent of GDP in 1993, compared to a surplus of 5.4 per cent of GDP in 1989. The debt/GDP ratio, only 44 per cent of GDP at the start of the decade, is now 93 per cent, and rising.

Since Swedish tax revenues already consume some 57 per cent of GDP, the bulk of debt reduction must be achieved through lower spending. The last government took some steps towards this, but their defeat in the recent election showed that the public was in no mood for further austerity. With unemployment at around 15 per cent of the labour force, the new administration is unlikely to find it much easier to make the sweeping reforms required.

There are similar worries about Italy, although the situation there is less dramatic. The country has a long history of running up debt. But measures passed last year have already gone some way towards stabilising the gross debt/GDP ratio, currently over 125 per cent. Indeed, Italy was the only country in the OECD (except Japan) to boast a primary budget surplus last year.

Yet the heavy burden of interest payments – which consume over a fifth of public spending – and recent overspending mean that the country's debt ratio will continue to rise, unless the Berlusconi government makes deeper cuts. The fragility of his coalition has so far put this in doubt.

Rising public debt... puts pressure on worst offenders... to cut spending more



Source: OECD

Political uncertainty also clouds the picture for Canada, possibly the least worrisome of the three. The country's budget deficit will be around 5½ per cent of GDP in 1994, while the the debt/GDP ratio is now 95 per cent.

However, much of the Canadian deficit was caused by the recession. As long as the country continues to recover, William Dudley, economist at Goldman Sachs investment bank, thinks that Canadian debt should stabilise without further fiscal tightening. In the wake of the recent Quebec elections, the worry about Canada does not seem to be that the debt itself will reach unsustainable levels, but, rather, that the possible separation of the country will cast doubt over who is responsible for it.

As the chart shows, investors' doubts have pushed up long-term interest rates in all three countries. Their currencies have also suffered, depreciating about 5 per cent against the D-Mark in the case of the Italian lira and Swedish krona, and by a similar amount against the US unit in the Canadian dollar's case.

As far as these countries' governments are concerned, the bitter irony about the markets' concern for their financial well-being is that it makes their situation dramatically worse. Rising long-term rates make for even higher debt interest payments. Countries could, in theory, keep short-term interest rates low, and reschedule the debt towards short-term bonds. But pressure on the currency tends to mean official interest rates have to rise, not fall, to defend its value, possibly further weakening the economy in the process.

Of course, signs of a debt-interest spiral of this kind only make investors worry more, since the government must take even stricter measures to avert a crisis. But the mere threat of one is supposed to be enough to force governments to act sooner rather than later.

In most cases, the chances are that they will. In a world of highly integrated capital markets, a good international credit rating is simply too important for a country to throw away with a default on its debt.

In that regard, today's problem countries might well look wistfully to the past. Many emerged from the second world war with even greater debt burdens: US national debt was 125 per cent of GDP, in the UK the debt ratio was closer to 200 per cent. Due, however, to the disintegration of the international capital market between the wars, the bulk of that debt was held by a country's own citizens. And tight capital controls prevented them from taking their money out.

Neither condition holds today. As Sweden and others are painfully learning, this ensures that their "local difficulties", even relatively small ones, do not remain that way for long.

World Economy and Finance: 5

Profile: GEORGE SOROS

Billion-dollar man the money markets fear

George Soros is variously known as "the man who broke the Bank of England", "the JP Morgan of our time", and "the world's highest paid businessman" (last year, he reportedly earned more than $1bn).

Yet, whatever the sobriquet, the 64-year-old, Hungarian-born financier is indisputably the most prominent professional investor of the late 20th century. He is also one of this century's most successful.

His Quantum Group of hedge funds controls about $12bn, which Mr Soros and his money managers invest in a wide array of markets, currencies and securities. In the past 10 years, the funds, and their founder, have made an enormous amount of money. At the same time, Mr Soros has forged a reputation as an *extraordinary philanthropist, donating* hundreds of millions of dollars of his own money to a variety of causes, most notably the rebuilding of eastern Europe's shattered economies.

Mr Soros's best-known triumph is probably the $1bn profit he made in a few weeks in 1992 by successfully anticipating a massive devaluation in sterling. It was his short-selling of the pound which helped contribute toward a huge plunge in the value of the UK currency, and its eventual withdrawal from the European exchange rate mechanism. His funds also enjoyed substantial gains last year after Quantum made more correct bets on world bond and currency markets, bets that enabled the funds to report a near-70 per cent return to investors in 1993, the best year in an extended period in which Mr Soros has earned for his investors average annual returns of around 40 per cent.

Some of those gains, however, have since been eroded by losses incurred this year, due mostly to the rapid rise in international interest rates, and the sharp deterioration in the value of the US dollar against the Japanese yen. Losses on yen positions in February alone cost Quantum $600m.

While the recent losses do not match Mr Soros's most fabled setback – the $800m he lost during the October 1987 stock market crash – they did bring to an end a long run of successes, and demonstrated that even the most experienced and astute of investors can be caught out by seismic shifts in global financial markets.

That does not mean, however, that the influence of Mr Soros, and his funds, has been waning. Quantum still commands a vast amount of capital which, if invested heavily in one place, can have a dramatic effect upon the price of a particular currency or market. Many investors still hang on *his every word, and central* bankers know to fear the power of Mr Soros's huge, often aggressive, funds.

Last year, for example, Quantum made a series of investments that made it clear Mr Soros was betting on a rally in the price of gold. The pronouncement was enough on its own to trigger a surge in the gold price. Similarly, when he unveiled plans to invest in the stricken British property market, the value of property shares on the London stock market jumped by 6 per cent, prompting some observers to call the end of the slump in British property prices.

Although Mr Soros courts publicity when it comes to his charitable work in eastern Europe and elsewhere, details about his funds' trading strategies have traditionally been scarce. However, this April, after Mr Soros appeared before a Congressional hearing on hedge funds, one of his associates revealed that typically about 60 per cent of the Quantum funds are invested in individual stocks, another 20 per cent is used to make big trading bets on the direction of global interest rates and currencies, and the final 20 per cent is kept in highly conservative instruments, such as US government securities and bank deposits.

It is the 20 per cent employed in "macro" trading strategies that earns Mr Soros and Quantum all the attention: partly because the funds borrow heavily against the value of their assets to leverage billions of dollars into even greater billions, and partly because the strategies the funds employ often involve huge gambles on short-term movements in currencies and interest rates, gambles that can sometimes – as in September 1992 – embroil financial markets and leave central banks and economic policy-makers nursing bruises.

Yet, Mr Soros increasingly appears to be distancing himself from the day-to-day running of the Quantum funds, which he leaves to money managers such as his number two, Stanley Druckenmiller. Mr Soros prefers, instead, to devote more of his time to philanthropic activities.

Whether his absence will substantially affect the performance of the Quantum group remains to be seen, but Mr Soros knows that his ability to engage in good works depends upon his ability to make money, so it is unlikely that he will stray too far from the business of hedge fund management.

Patrick Harverson

Emerging markets are heading for another important year, writes **Barry Riley**

Poised to stay the course

If 1993 was the crucial year when emerging markets finally broke through into the big-time global investment scene, 1994 could prove to be another important year in which they will consolidate their position in much more *difficult circumstances*, and show they have staying power.

Last year's huge net flows into emerging equity markets – some $55bn according to Baring Securities – are unlikely to be repeated this time, still less the average rate of return of some 70 per cent. But according to Barings a still very substantial $30bn-plus (the second-largest annual total) is likely to flow into the emerging markets this year.

And after setbacks early in 1994 for many individual country markets the global emerging markets indices have recently moved back into positive territory. Earlier this month, for instance, the International Finance Corporation's Composite Index was showing a gain of some 2 per cent on the year so far, while Baring's World Index was up 10 per cent (expressed in dollars in both cases).

Thus emerging market equities were rather less volatile than bonds, which have proved to be highly vulnerable to the jump in US Treasury bond yields.

Last year US institutions were chasing so-called Brady bonds – paper resulting from country debt restructurings – *to improve on the low yields* on US Treasuries. This year, not only have Brady yields risen but the *spreads* over Treasuries have widened sharply. Hence the negative return of 15 per cent or so for the year to date, although there has been a modest recovery during the summer.

Even in equities the picture has been variable, as is only to be expected in a risky area. For instance, the Turkish market has been very weak and China is going through a difficult time. But there have been profits to be made in parts of Latin America – notably Brazil, at least until the resignation of the finance minister earlier this month – and in India and Korea.

In any case, definitions of emerging markets vary. Hong Kong is now an advanced economy but in some respects it serves as a proxy for China. Mexico is becoming progressively integrated into the north American economy. The *real* pioneers are looking further afield, to countries such as Morocco, Bangladesh and Vietnam.

A search for higher returns lies behind the surge in investor interest in developing countries. The attitude of US *investors has been pivotal*. In the past they have been largely stay-at-homes but by 1993 Wall Street appeared to have reached rather high (and therefore unattractive levels) given the modest long-term economic growth prospects of the US economy.

Coincidentally, political shifts altered the attitudes of many developing countries, including the former Soviet block. Privatisation programmes were introduced, often involving the sale of important state corporations including telephone and oil companies. Cross-border investment restrictions were relaxed.

There have been profits to be made in parts of Latin America – notably Brazil

Bodies such as the Washington-based IFC, an equity-oriented affiliate of the World Bank, began to get much more involved in development programmes. New stock exchanges were set up in many countries, including Russia.

In 1993, according to the *IFC, some 2,000 enterprises* in the 25 emerging markets it regularly tracks raised some $38bn in new equity issues. These emerging markets have *grown to represent* 12 per cent of world equity market capitalisation on IFC definitions.

In fact, the emerging markets, taken as a group, now add up in capitalisation terms to the world's third-biggest market, after the US and Japan. Often, indeed, investors regard them as forming a distinct asset class, offering high but risky returns.

The high returns are based upon rapid economic growth. Whereas the G7 advanced countries have slowed down to average longer-term growth rates of perhaps between 2 and 3 per cent the developing countries are capable of 6 per cent or more. For several years China, for example, has grown at 13 or 14 per cent, and it still has vast potential, although it is now slowing down after signs of overheating (including a rise *in the inflation rate to* about 25 per cent).

US investors have suddenly *latched on to the potential of* the emerging markets. Last year around $20bn flowed into US mutual funds specialising in emerging markets, and further large sums were channelled through more general global funds. US pension funds are also *planning to* raise their exposures to emerging markets substantially (from only about 0.5 per cent of their portfolios at present).

Michael Howell, global strategist at Baring Securities, says in the five years since the dismantling of the Berlin Wall, which symbolised the political changes, flows of capital to emerging markets have jumped by 15 times.

He reckons that emerging stock markets will account for some 40 per cent of the global market capitalisation by 2010. Already the markets are becoming broad enough for some investors to concentrate on particular sectors such as communications, infrastructure and the media. "There's more interest outside the country angle and focused on industries," he says.

This flow of capital into less developed countries is now on a large enough scale to have important implications for the future shape of the global economy. Indeed, the scare over capital shortages earlier this year owed something to the fear that the draining of financial resources out of the US and Europe was forcing up the real cost of capital.

If there is to continue to be a large-scale shift of investment capital to the emerging markets then western governments must accept at least two consequences. They must reduce their own borrowing levels, or rates of return will indeed be forced up. And the advanced *economies must run* current account surpluses to offset their deficits on capital account.

Plainly, countries such as Germany and Japan, which are benefiting heavily from the capital investment boom in developing countries, will find it easier to fit into this framework than the US and the UK. The latter states have become big importers of consumer goods – but it is impossible for very long to combine high consumption with heavy investment.

The main short-term risk for the emerging markets is therefore that US interest rates will rise substantially further to rebalance the US economy, and in the process the flow of investment dollars will be choked off.

For the time being, however, buoyant exports and rising commodity prices are boosting activity in many third world economies. These are strongly positive trends, and serve to explain why share prices in many of the emerging markets have rallied strongly since the wave of profit-taking in the spring.

World Bank and International Monetary Fund: after 50 years, changes are afoot, says **George Graham**

Bretton Woods twins rethink their roles

Strolling past the downtown Washington offices of the World Bank and the International Monetary Fund, the casual passer-by might be forgiven for thinking that both institutions had succumbed to an assault from the "50 Years Is Enough" campaign, a coalition of environmental and development groups lobbying for radical changes in the structures set up at the Bretton Woods meetings half a century ago.

But although activists from Greenpeace, the environmental group, abseiled down the side of the World Bank building to unfurl a protest banner, the gaping holes in front of each building are self-inflicted: the World Bank has knocked down one of the oldest of its cluster of offices to build new premises, while the Fund has at last bought out and destroyed the small church that nestled in its shadow for years.

Although the vocal campaigners of "50 Years Is Enough" have made little dent on the objects of their attack,

Much of the World Bank re-orientation stems from the Wapenhans report in 1992

the two institutions have been rethinking and reworking their roles and their structures as they approach the 50th anniversary of their founding.

At the World Bank, much of the re-orientation springs from the Wapenhans report, a 1992 study headed by a former Bank vice-president, which found an alarming deterioration in the quality of the loan portfolio, and suggested changes to the institutional culture to shift the focus away from making new loans and towards making sure that projects were properly followed through.

A series of measures has been adopted with the aim of putting the stress on better implementation: reviews of the entire portfolio of projects within each borrowing country have been instituted; greater efforts have been made to improve the "quality at entry" of projects by involving people with a stake in the outcome from the very start of loan discussions; and the message has been passed down to bank staff that they must spend more of their energies on supervising the projects they have worked on.

The World Bank is replacing one of its older buildings with new premises

Lower level managers say that there has been a change in the kind of projects that win favour: projects to be carried out largely by long-term expatriates have almost disappeared, and each project must demonstrate that it does something to build the capacity of the borrower country to do things on its own.

Large infrastructure loans such as dams and ports have also dwindled – though those that remain take up a disproportionate amount of Bank staff time, because of the opposition they invariably arouse from environmentalists – and more loans are now targeted on social programmes such as education, health and the advancement of women.

At the same time, the 50th anniversary, although a somewhat artificial watershed, has provided a useful occasion for rethinking the Bank's purposes.

One clear outcome of this reflection is a new emphasis on the private sector. The private sector's importance in economic development has been an article of faith for some years now, but the World Bank, headed by Lewis Preston, is in a difficult position. It has a subsidiary, the International Finance Corporation, engaged in private sector projects, but is not itself allowed to lend to anything but a government institution. This means that the World Bank may encourage a country to privatise its railways or its banks, but once the country does so, the Bank can no longer lend to them.

Nevertheless, senior Bank staff have over the years rethought what they can do to help provide the right conditions for the private sector to flourish in developing countries.

"The Bank, being dominated by economists, has tended to think you can create an enabling environment for the private sector by simply changing the policies. It turns out not to be that simple," says Joseph Wood, vice-president of the south Asia division, pointing to the need for structures such as an adequate legal system.

The IMF, on the other hand, has faced the criticism that it is trying to do the work of its sister institution by taking on more of a development role.

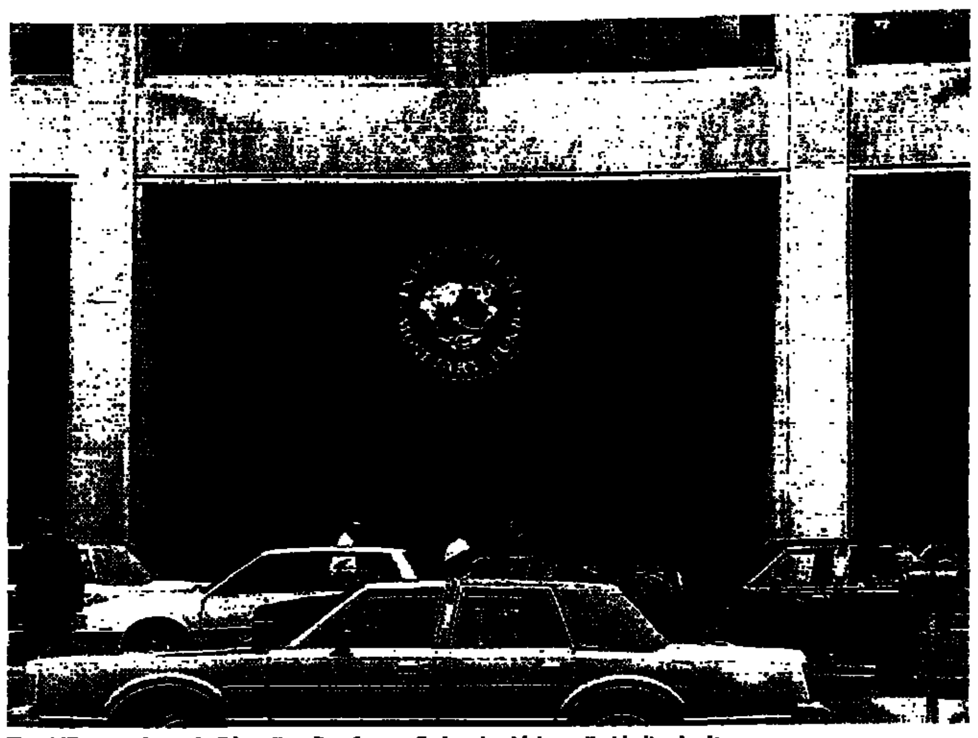
"The Commission believes that the IMF should focus on the international monetary system and macroeconomic adjustment issues, and avoid duplicating functions of the World Bank Group," was the conclusion of an influential Bretton Woods commission convened by Paul Volcker, former chairman of the US Federal Reserve Board.

The Fund no longer has to lend to the western industrialised countries – as it once had to do to bail out the UK – and it has in recent years adapted its loan facilities to make money more readily available not only to the poorest countries of the developing world but also to the countries of eastern Europe and the former Soviet Union in their transition from central planning to a market economy.

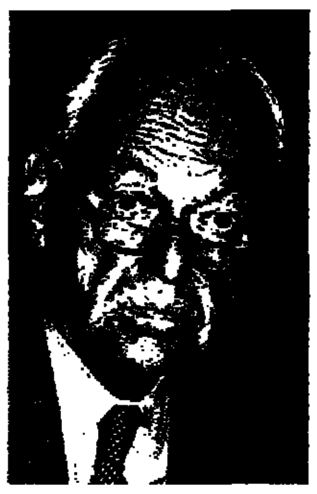
The IMF this year won new money for its Enhanced Structural Adjustment Facility (ESAF), which lends money at nominal interest rates to the very poorest countries, mostly in sub-Saharan Africa.

And last year, the Fund created the Systemic Transformation Facility, designed to make money available to Russia and other economies in transition before they were able to qualify for the more strictly conditional financing of a traditional IMF standby loan.

Michel Camdessus, the IMF managing director, strongly defends his institution's role in these areas.



The IMF can at last rebuild on the site of a small church which nestled in its shadow



Lewis Preston: presiding over changes at the World Bank

Michel Camdessus: defends the IMF's development role

"We shall not get out of the aid business because we are not in it. But we shall continue to give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards," he said in a speech to Mr Volcker's Bretton Woods Commission, pointing out that this was one of the purposes set out in the IMF's founding articles.

Mr Camdessus would welcome a chance to follow the Commission's advice that the Fund should play a central role in stronger co-ordination of economic policies around the world. He recognises, however, that the willingness of the leading industrial countries to co-operate in placing themselves under more rigorous surveillance by the Fund is "still somewhat embryonic".

But although both the Fund and the Bank have made efforts to evolve and adapt themselves to new circumstances, both remain, in a variety of trifling and not so trifling respects, islands of self-absorption in Washington.

Both have cut back to some extent on their lavish lifestyles. First class air travel is now largely banned, though business class is still the norm, and officials do now at least consider the cost when examining a new proposal. One senior IMF official even proposed profiting from the building demolition work by renting out the wrecking ball to critical environmentalist groups.

But cost-consciousness is still less deeply ingrained than some spending habits. When one IMF circular suggested departments could save money by using an airline's offer to upgrade passengers with full-fare economy class tickets to business class, the staff association protested vigorously.

Frank Potter, a Canadian who served until recently as an executive director on the World Bank's board, says that "a long history of orchestrated increments to the benefits package, never egregious but always at the limit of tolerance, has led to a structure in which no single benefit is outrageous but which in the aggregate amounts to a cost burden which no private institution I know of could afford.

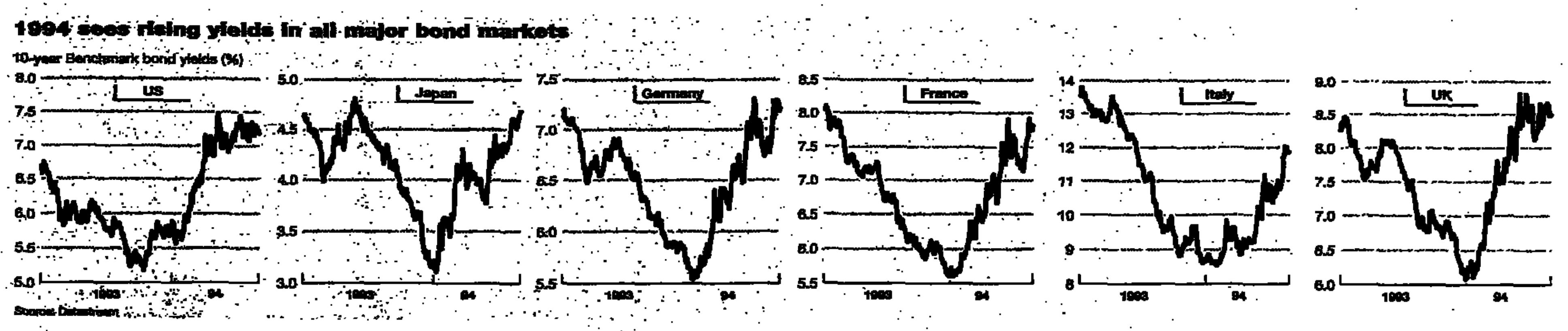
"A Bretton Woods secretary can earn more than ministers in most Bretton Woods countries, yet despite such high salaries there is subsidised parking, subsidised language training, subsidised day care, subsidised spousal travel on missions (never in economy class), subsidised home leave for the family, subsidised private schools for the children (but only to age 25), and so on and so on."

Some of this reflects serious disagreements between member countries over the need for such benefits. Many executive directors from Latin America and Africa argue that benefits such as first-class air travel are absolutely necessary to attract talented staff from their countries.

"There is an inverse relationship between per capita income and the need to be seen to be consuming conspicuously," retorts a western executive director.

Although the failings of the World Bank and the IMF in these respects pale into insignificance against the shortcomings of some of the regional development banks, notably the African Development Bank, there is a danger in being inadequately responsive to the concerns of the shareholder countries which provide the money for the Fund's ESAF or the World Bank's International Development Association, which also provides concessional finance to the poorest countries. Aid budgets in all these donor countries are under pressure, and individual aid ministries have a growing incentive to keep money for their own bilateral operations. The Bank and the Fund, therefore, face increasing pressure to prove that they are, in fact, a bargain for their shareholders.

The IMF has adapted its loan facilities to make more money available to the poorest countries



Bond markets: many traders erroneously expected the bull run to continue into 1994, says **Antonia Sharpe**

Professionals wrong-footed by the Fed

The embarrassing admission last month by HSBC, the international banking group which owns Midland Bank, that it lost £123m on bond and interest rate-related trading in the first half of 1994 shows just how wrong the professionals have been about the direction of bond markets this year.

After raking in huge profits during last year's phenomenal bull run, many traders clearly expected their luck to continue into 1994. But they were wrong-footed by the US Federal Reserve's decision in February to nip inflation in the bud by raising short-term interest rates.

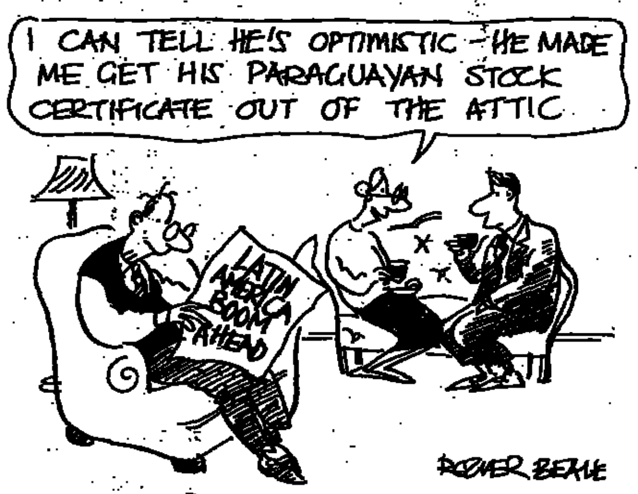
The Fed has underlined its determination to keep inflation in check by raising interest rates several times since then. By mid-August, the federal funds rate, which banks charge each other on overnight balances, had risen to 4.75 per cent from around 3 per cent at the start of the year.

Despite the Fed's pre-emptive strikes, the market still believes that further rate rises are necessary to effectively cap inflation in the US and to bring about the required slowing of economic growth. For example, J P Morgan expects the federal funds' rate to peak at 7 per cent next year, up from a previous forecast of 6 per cent, three percentage points above its projected 4 per cent inflation rate for 1995.

Having got the direction of the US market wrong, many investors had hoped to make up for those losses by buying European government bonds in the belief that a further fall in continental interest rates was likely. But the so-called "decoupling" theory, whereby European interest rates would fall independently of the rise in US rates, has not come true.

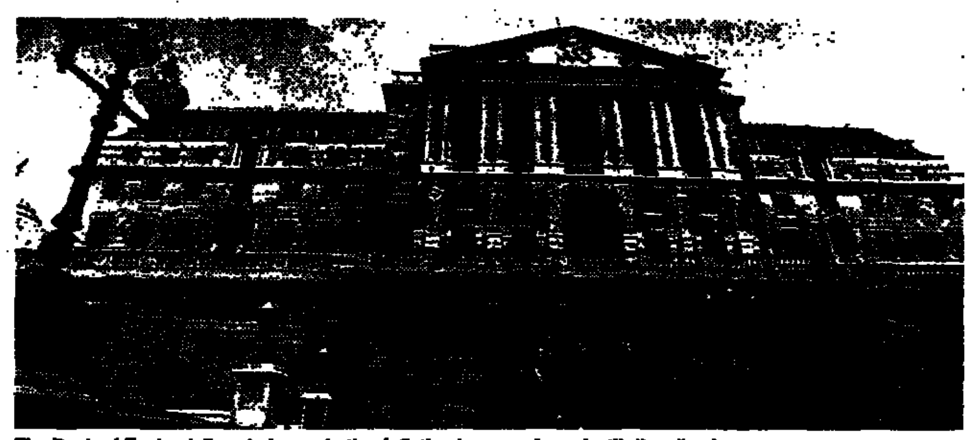
Although inflation has hit the lowest level for a quarter of a century in several European countries, higher commodity prices and stronger-than-expected economic growth have hampered hopes of a further fall in interest rates this year. As a result, many European government bond markets have failed to live up to the expectations which analysts held at the start of the year.

According to the J P Morgan government bond index, the UK government bond market recorded a negative return of 8.7 per cent in local currency terms from January to August, while Germany saw a negative return of 3 per cent. The worst performer was Sweden with a negative return of 9.5 per cent.



The depth of the fall in European bond markets this year has been compounded by the severe erosion of the traditionally dominant position of long-term institutional investors by previously-unknown US and off-shore hedge funds – leveraged pools of private money which were highly geared in the futures markets. The hedge funds, along with the proprietary traders at leading banks, bought heavily into European bond markets at the end of last year and the beginning of this year but when it became clear that their bets were going badly wrong, they had no option but to sell their holdings quickly because of their highly-borrowed positions.

"Institutional investors do not have any influence over the direction of bond markets any more, they are dominated by the short-term movements of traders," said David Shaw, director of strategy at Legal & General Investment Management.


The Bank of England: its role is combating inflation has now been institutionalised

The sidelining of the institutions, baffled by the free fall in the markets which appeared to have nothing to do with economic fundamentals, has caused market liquidity to contract sharply. In such trading conditions, even the lightest of sell orders can send prices into a tailspin.

August was a particularly gruelling month for European bond markets as the seasonal drop in trading volume further reduced the markets' capacity to cope with nasty surprises. For example, when Sweden and Italy unexpectedly raised their interest rates on August 12, the thin volume in the cash and futures market caused the impact on European markets to be far more severe than was justified.

Although the Swedish and Italian central banks' actions were widely interpreted to have been motivated by domestic concerns – primarily to galvanise their governments into tackling their large budget deficits and to defend their respective currencies - they inevitably raised fears that continental interest rates had reached their trough and were now heading upwards.

Attention has inevitably turned to Germany, where many analysts had expected the Bundesbank to cut the discount rate at least once more this year. But the plentiful signs that the German economy has been growing strongly in recent months and that the downward trend in inflation is slowing have prompted forecasters to increase their projections.

For example, both Deutsche Bank and Swiss Bank Corporation revised their 12-month forecasts upwards on 10-year bund yields, by 30 basis points to 7 per cent and by 50 basis points to 6.25 per cent respectively.

Because of the extreme nervousness of the market, the Bundesbank decided not to be precipitate on the interest rate front when it met in August after its four-week summer break. It left leading interest rates alone and extended its fixed rate of 4.85 per cent for the next two repurchase agreements. The market is very sensitive to changes in these so-called repos which they see as indicators of the Bundesbank's intentions towards leading interest rates.

But given the heavy issuance programme ahead of the Bundesbank, and the approach of the federal elections in October, it will soon have to come off the fence.

One market about which analysts are becoming increasingly optimistic is the UK government bond (gilts) market. As many expected the Bank of England in mid-September raised the base rate by half a percentage point to 5¾ per cent, to keep the lid on inflation. However, they still believe that gilts have the ability to outperform their US and German counterparts from now until the end of the year.

Simon Briscoe at SG Warburg believes that the recent release of second-quarter GDP numbers, which show no inflation, weaker consumer demand and a shift to exports, are just about the perfect set of data for the market. The better-than-expected inflation and wage data have prompted Kleinwort Benson to cut its end-year 10-year gilt yield projection from 9.25 per cent to 8.5 per cent.

Derivatives: **Tracy Corrigan** on the threat of restrictions

Regulators breathe a little easier

In the past 10 years, innovation in the field of derivatives trading has transformed the nature of the world's financial markets. But in recent years the potential dangers associated with derivatives have attracted the glare of regulatory attention and the threat of restrictive legislation.

Worrying political news in Tokyo now affects instantly financial markets around the world, and traders and institutional investors adjust their portfolios accordingly in a matter of moments. Their ability to do so results at least in part from the creation of a range of complex and not-so-complex financial instruments known as derivatives (because they derive their value from the underlying markets on which they are based).

A number of other developments have facilitated the financial revolution which has brought the derivatives markets to the fore. First, the impact of the derivatives markets was exaggerated by the wave of deregulation which characterised the 1980s.

As the barriers between markets, which had effectively forced investors to focus largely on their limited domestic sectors, were removed, large institutions began to focus increasingly on the investment opportunities available in new, overseas markets. The result was the creation of a far more international market place. This was also facilitated by technological developments, which gave dealers access to powerful personal computers on which they could learn of the latest economic data, calculate exposure, execute trades, and so on.

But international investors quickly became wary of the pitfalls of entering new markets, the most important of which was lack of liquidity. Investors found that while they might be able to buy stock easily enough, it could prove harder to sell it, if the market turned around.

Futures markets had already existed for some time in the US, but it was the foundation of Liffe (the London International Financial Futures & Options Exchange) in 1982 which marked the start of European futures trading. Liffe and other European exchanges now offer a broad array of financial futures and options contracts based on Europe's main short-term interest rates, bonds and stock indices. These allow traders and investors to switch their exposure from one market to another in a matter of moments.

In most of the world's securities markets, the liquidity of the futures market now substantially exceeds the liquidity of the underlying market. For example, volume in FT-SE 100 index futures on Liffe is two and a half times the stock market's turnover.

This, however, has led to concern among market supervisors that derivatives are destabilising financial markets – in other words, that the tail is wagging the dog. Although accusations flew in the wake of the 1987 stock market crash and also during the turmoil in the bond markets after the US authorities raised interest rates in February, there is little in the way of concrete evidence.

There is little evidence that derivatives are destabilising financial markets - most studies have shown the opposite to be true

In fact, most studies have shown the opposite. For example, a study in December by Gary Robinson of the Bank of England on the effect of derivatives on the London stock market concluded that "futures trading has been associated with a significant reduction in volatility – around 17 per cent".

In addition to the futures and options contracts traded on the world's futures exchanges, an over-the-counter (OTC) market in derivative instruments such as swaps has grown up. According to the International Swaps and Derivatives Association, the notional amount of OTC swaps outstanding stood at $8,500bn, at the end of 1993.

It is the OTC market which has been the forum for the greatest innovation, developing exotic products such as knock-out options, which reduce the cost to the end user. Such instruments are now widely used by companies to manage risk on their treasury side, but they are not without danger.

There has been a list of casualties, such as Allied-Lyons, which lost around £150m several years ago, when currency options positions went awry, and Germany's Metallgesellschaft, which had to be rescued by its banks when a trading subsidiary incurred estimated losses of $1bn on oil derivatives.

Meanwhile, Procter & Gamble recently threatened legal action against Bankers Trust, after it lost $100m on swaps sold by Bankers Trust. Although the threat has so far come to nothing, the notion that banks may be marketing swaps and other tools in an irresponsible manner could prove a damaging one.

These blotches of red ink have attracted considerable scrutiny from regulators, many of whom have expressed concern about the potential knock-on effects of problems in derivatives on other markets, or on the integrity of the financial system as a whole.

Although a number of recent reports by regulatory authorities such as the Bank of England have adopted a fairly conciliatory tone, there are still calls for regulators to tighten up on derivatives use, or to force greater disclosure.

Moves towards a tougher legislative environment in the US, where derivatives have become something of a political issue, are causing some nervousness within the industry.

The industry itself has made some effort to put its house in order, by tightening standards of internal control. A report by the Group of Thirty, a financial think-tank, on derivatives in 1993 set strict guidelines. Further, US banks such as Citibank have led the way in giving fuller details of their derivatives exposure.

The latest signs, though, are that restrictive legislation or regulation is likely to be averted. First, regulators are developing a greater understanding of the techniques involved in derivatives, and appear to be adapting their approach accordingly. Although the playing field is far from even, efforts are being made to move towards more consistent regulatory treatment.

"People are coming to realise that (derivatives trading techniques) are very well founded in some very sensible theory," said Charles Taylor, executive director of the Group of Thirty, whereas banking practice has grown up around certain assumptions and has often proved rather unsatisfactory.

Business ethics: the subject has blossomed in the wake of corporate scandals, says **Samuel Brittan**

Golden rules are difficult to apply

One of the most flourishing minor industries of the world is known as business ethics. The subject has blossomed since the mid-1980s in the wake of a number of corporate scandals. Some 500 business ethics courses are said to be available in the US and the subject is taught in 90 per cent of US business schools. Europe's first business ethics publication was, no one should be surprised, in Italian. The spirit of the subject is captured by an Economist headline "How to be Ethical, and Still Come Top".

John Kay, himself a professor of business economics, has remarked: "If Aristotle, John Stuart Mill and G.E. Moore could not sort out ethical problems once and for all, it is unlikely that today's business gurus can solve them with a few trite phrases. But untroubled by these concerns, they go on earning more for a single lecture than Aristotle, Mill and Moore were paid in their entire lifetime."

In the last resort, however, business ethics is not a real subject, as distinct from ethics generally. Some philosophers make a distinction between morality itself, which concerns how we should behave, and ethics, which they see as a more abstract analysis of the language of moral discourse. In ordinary language ethics is used to cover both aspects.

In this sense there is only ethics and its application to different spheres. Business, medicine, politics and law all throw up their special problems; but whatever our basic morality, it should apply to all these fields as well as personal behaviour.

Business ethics has become popular because the complexity of modern business makes it difficult to rely on just a few well-cherished rules. For instance, is the use of insider information a "victimless crime", or does it do real harm to the interests of others? The problems arise in the economic analysis of consequences. Where there are, however, genuine clashes between different values, no course in business ethics will solve the resulting dilemmas.

A frequent business conundrum concerns bribery. A business executive may be strongly opposed to the practice; but if he disdains a bribe from some overseas government official, his competitors may obtain a lucrative order.

This dilemma is but a particular instance of the difficulty of applying the golden rule "Do unto others as you would have them do unto you" when others do not observe it. In this case the practice which you would like to see observed is: don't give or take bribes. But what do you do if others will not follow? Become a martyr; or do as others do, even though you are endorsing a pernicious practice?

Those who are genuinely interested in moral reasoning rather than striking attitudes will not stop there. The maxim against bribery is a lower level rule of everyday morality, not a final principle. We think that human welfare would be greater in a world without bribery.

But either to say "Never take bribes though the heavens fall" or "Grow up and do what others do" is equally an evasion. Circumstances need to be examined, including the validity of the maxim itself. In the would-be command Soviet economy the only way of matching supplies to requirements was by a series of side payments and unofficial deals between officials in state enterprises. In these conditions it may have been a duty to encourage such payments to help Soviet citizens lead a slightly less impoverished life.

The problems are as great in post-Communist Russia. The journal Business Ethics cites in its January 1994 issue an explanation of why young people are in great professional demand in Russia today: "Older people have an ethics problem. By that, I mean they have ethics. To survive, I can break a law if I need to and if the risks aren't too large. Older people wouldn't even think it is such a way."

Consequentialist philosophers, who believe that rules should be judged by their effect on human or other valued concerns, would be less inclined to condemn this young man out of hand than deontologists, who believe that rules should be observed though the heavens fall. It must be said, however, that most published codes of business ethics are banal in the extreme and give little guide either way.

One of the few books on business ethics which has something to say is Just Business by Elaine Sternberg published this year (Little, Brown, £20). The author was a lecturer in philosophy at the London School of Economics before spending 14 years as an investment banker and is now running her own consultancy.

Dr Sternberg has two theses. First, the sole task of business is to maximise the long-term value of the owners' stake by selling goods and services. It is not to exercise "social responsibility" for crime prevention, urban decay, the education of the young or the provision of managerial advice to government. Thus she has no time for fashionable ideas such as "stakeholder theory" in which workers, customers and suppliers count equally with shareholders.

Nevertheless, her attitude is far removed from the "devil take the hindmost, anything goes" attitude. For her second main thesis is to insist that everyone in business has a duty to behave ethically. The ethics show themselves in the means used to achieve business objectives, and not in deviating from them for supposedly worthwhile goals.

Ethical methods involve "ordinary decency", which she divides into honesty, fairness, refraining from coercion and physical violence, and respecting the law. By fairness she has in mind, for instance, not deliberately misleading people or building up false expectations.

The main problem with the book relates to philosophical foundations on which human beings will always differ. Dr Sternberg believes that ethics is an objective discipline, as knowable as physics, and the same for everyone, everywhere. She has no time for any degree of relativism or subjectivism. This is linked with her belief – following Aristotle – that all activities and objects have essential natures revealed by careful definition.

These theoretical matters affect the business practitioner. To take one example: Dr Sternberg's objection to "social responsibility" is that it misunderstands the nature of business. Her view of business is the mainstream Anglo-American one in which someone who wants to use corporate assets for the benefit of people other than shareholders is guilty of misappropriation, unless a clear prior warning is given.

But suppose that law and practice are different? In Japan and parts of Europe corporate directors may be in part responsible to other "stakeholders"; and there are non-profit making corporations in all countries. The author's response is that such corporations are not true businesses. The question at issue, however, is whether human needs are better served by maximising equity value or by some variant of the stakeholder approach. This is a matter of political economy, not definitions.

Behind the arguments of business ethics is the age-old debate about whether or not a businessman benefits his followers most by maximising profits. The English 18th century evangelist and non-conformist, John Wesley, had three maxims: Gain all you can (honestly, of course), Save all you can, Give all you can.

A clever undergraduate can show that these maxims are imperfect. But are they as good as we are likely to get in an imperfect world or can we improve them without platitude or self-defeating complication?

A businessman absorbed by this question would have to spend so long studying philosophy, political economy, history and (above all) human nature that he would have no time for his proper metier. I have previously suggested that the best short cut might be the study of role models, that is of how specific admired and successful individuals coped with the problems. This would have to be done in a modern idiom, not just copying Samuel Smiles. Who will rise to the challenge?

Samuel Brittan considers these matters in much greater depth in his book Capitalism with A Human Face, Edward Elgar (forthcoming).

Competitiveness: **Frances Williams** takes a quizzical look at the IMD report

The art of staying ahead is adaptation

"Damned if you do and damned if you don't" just about sums up the gloomy message for the industrialised world of this year's World Competitiveness Report issued by the Swiss-based International Institute for Management Development (IMD) and the World Economic Forum.

Its theme is that countries as well as companies must accept the need for constant change and adaptation to stay ahead of rivals in world markets, in a never-ending quest for global competitiveness.

Many of those changes are going to be painful, especially for European nations which are finding it increasingly difficult to support high living standards and social benefits.

Prof Stephane Garelli, head of the World Competitiveness Project at IMD, believes the west is in a bind. If a country loses competitiveness, it will not be able to afford an affluent lifestyle.

But to compete effectively, it may have to jettison that lifestyle anyway. Little wonder that a strong body of opinion in industrialised countries holds that "competitiveness is unfair".

Prof Garelli's own view is that "competitiveness is not unfair but it is rough". It is also inescapable; markets worldwide are being blasted open by a series of legislative, technological and management revolutions, most notably the Uruguay Round global trade agreements, developments in communications and data transmission, and the spread of multinationals.

One consequence of the race for competitiveness will be a shift of jobs to the third world, Prof Garelli says. "The opening of world markets and the harmonisation of international business rules, through agreements such as the General Agreement on Tariffs and Trade (Gatt), puts enormous pressure on business activities to relocate."

In the past 10 years, a labour force of some 1,200m people has become reachable in the developing countries, at an average cost of less than $2 an hour.

The industrialised nations at present employ 350m people paid an average hourly wage of $18.

"European labour costs are four times as high as in East Asia but European workers are not four times as productive," says Prof Garelli, pointing out that freer trade and technological advances now permit companies to farm out discrete bits of the production process to wherever seems most profitable. "Today, an outflow of manufacturing operations from western economies seems inevitable."

Even more gloomily, Prof Garelli predicts a similar exodus of white-collar jobs. There are already some straws in the wind. Swissair, Switzerland's national airline, has transferred much of its accounts work to Bombay.

American banks use Ireland for processing financial data. India and the Philippines have flourishing software industries.

Unemployment in industrialised countries will thus remain high, Prof Garelli says. Moreover, he believes that the incomes of a good part of the workforce may fall.

Over the past decade or so, European pay levels have risen at the expense of jobs, while the US has created jobs at the cost of falling real wages. But both paths have led to stagnation or even declines in the purchasing power of lower-income households.

Prof Garelli sees this trend extending to the middle classes, as Europe follows the US in greater wage flexibility and governments in both the US and Europe are forced to raise taxes to reduce ballooning budget deficits.

If so, "we shall soon see the first generation since the war to have the doubtful privilege of becoming poorer than their parents".

Prof Garelli admits that some parts of the west's "value system" actually contribute to competitiveness – high education standards, for instance, or a corporate culture that reinforces employee commitment to the company.

Indeed, the US – which regained top place in the competitiveness league table this year after an eight-year reign by Japan – is warned that poor secondary education and "work attitudes" could if left untackled lead to long-term decline.

But, he argues, the industrialised countries and especially Europe have a value system that costs them more than their present levels of competitiveness can support. As a result, most governments are running unsustainably high budget deficits.

Fortunately, there are some indications that Prof Garelli's scenario may be too pessimistic.

The World Competitiveness Report itself places 16 OECD members among the top 20 competitive nations. Germany and Switzerland, with the highest labour costs in the world, come fifth and sixth.

This is because, as the report recognises, competitiveness is a complex thing which does not depend simply on relative labour costs.

"Soft" factors such as a skilled labour force, high quality communications and transport infrastructure, government policies, research capabilities and so on all count for more and more as countries move up the development ladder.

An analysis of the impact of multinationals on world employment by the United Nations Conference on Trade and Development (Unctad) seems to bear this out. Its recent World Investment Report argued that, while multinationals were ever more active, relatively few jobs are switched from the West to developing countries.

Most overseas investment, it says, is designed to exploit natural resources and new markets rather than labour-cost differentials (though there are important exceptions such as electronics).

In this context, companies are increasingly placing emphasis on an educated, committed workforce and good infrastructure.

The World Competitiveness Report also defines competitiveness in a way designed to produce winners and losers: "World competitiveness is the ability of a country or a company to, proportionally, generate more wealth than its competitors in world markets." If some countries move up the table, others must move down.

The OECD, by contrast, defines competitiveness in a way that allows everyone to win: "Competitiveness is the degree to which a country can, under free and fair market conditions, produce goods and services which meet the test of international markets, while simultaneously maintaining and expanding the real incomes of its people over the long term."

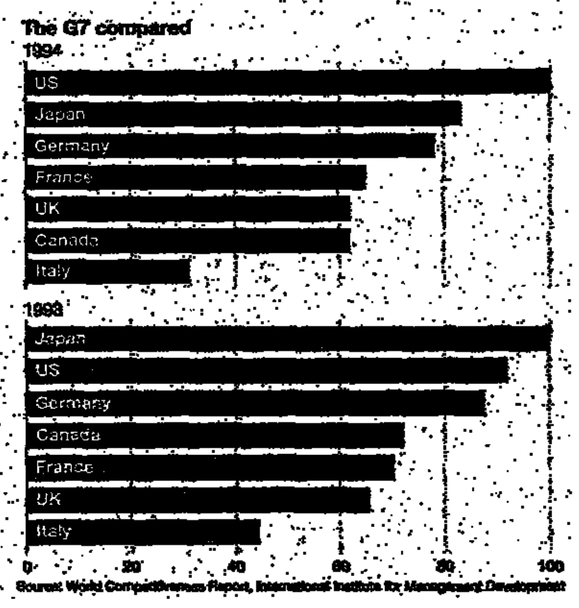
Post-war experience suggests the OECD's definition may be nearer the mark. Japan and the newly industrialising countries of East Asia have emerged as world-class competitors at the same time as the west has grown richer. The 125 nations that participated in the Uruguay Round of global trade talks certainly did so in the belief that expanding markets worldwide provide opportunities for all.

Competitiveness

World standing 1994

1 US	22 Chile
2 Singapore	23 Thailand
3 Japan	24 Korea
4 Hong Kong	25 Spain
5 Germany	26 Mexico
6 Switzerland	27 Argentina
7 Denmark	28 Portugal
8 Netherlands	29 Turkey
9 New Zealand	30 Colombia
10 Sweden	31 Indonesia
11 Norway	32 Italy
12 Austria	33 Philippines
13 France	34 India
14 UK	35 South Africa
15 Australia	36 Czech Republic
16 Canada	37 Greece
17 Malaysia	38 Brazil
18 Taiwan	39 Hungary
19 Ireland	40 Venezuela
20 Finland	41 Poland
21 Belgium/Luxembourg	

The G7 compared



Source: World Competitiveness Report, International Institute for Management Development

Business schools: are their courses worth it? asks **Bronwen Maddox**

Popularity of MBAs wavers

One of the toughest puzzles facing a business school student is whether it is worth taking the course in the first place. The answer may well be no, many have suggested; unfortunately the skills to work that out may be acquired too late to shape the student's decision.

The popularity of the MBA qualification soared in the US, UK and continental Europe in the second half of the 1980s. But in the past few years, prospective students and employers have increasingly questioned whether an MBA is worth acquiring. Schools report that growth in applications in the past three years has slowed sharply, or in some cases fallen, although the range of types of courses and starting dates prevents precise comparison of figures.

The change in attitude has occurred partly because the theories of corporate strategy promoted by many of the schools, such as globalisation, have themselves come under scrutiny.

At the same time, businesses have taken a closer look at whether it is worth their while hiring outside management consultants. Consultants have traditionally been among the keenest sponsors of students – paying the course fees of selected staff members – and among the keenest recruiters of business school graduates. European business schools now suggest that the increasing pressures on consultancy groups' margins have undermined their willingness to back students.

But much of the criticism of the courses has been prompted by their cost. The classic two-year full-time MBA course in a US business school can easily run to $100,000, taking loss of salary into account. In an analysis of US courses published this summer, Professor Ronald Yeaple, from the US's University of Rochester business school, argues that unless students attended one of the top two dozen schools, the investment would probably not pay off.

That is because recession has diminished the immediate returns on the investment,

Prospective students and employers have increasingly been questioning whether an MBA is worth acquiring

while increasing the risk of surrendering a salaried job. According to Roger McCormick of the UK's Association of MBAs (AMBA), "salary enhancement for doing an MBA has fallen". Instead of expecting to double their salaries on leaving business school, MBAs should think in terms of better long-term prospects for promotion, he says.

In response to those concerns, many business schools have moved fast to offer a wider range of courses. In particular, they offer more courses which will allow someone to keep paid employment. According to Mr McCormick "the image of the job-hopping MBA, if it ever was true, has subsided".

Precise UK figures are hard to establish, but AMBA reckons that in the 1993-4 academic year full-time MBAs make up a third of the 9,800 new places and part-time MBAs 31 per cent. The balance – 36 per cent – is made up by the increasingly popular "distance learning", where students are sent books and other materials by the school, and send back their completed work. These courses, which can take up to seven years to complete, "have assumed extraordinary prominence", AMBA says.

At the same time as this evolution in the courses' structure, the range of subjects offered has broadened. To reflect the growing complexity of business life, schools have added more advanced lessons in corporate finance and accountancy, as well as the General Agreement on Tariffs and Trade. Topics such as leadership and communication skills, for example, have also become popular, as have ethics, environment and business ethics.

That broadening, however, has given schools a new problem: how to maintain depth and academic rigour, while covering all the topics students expect to learn. The solution many have adopted is to allow students to specialise, picking their own portfolio of subjects. But employers sifting through job applications now fear that it may become harder to know what expertise is implied by the MBA qualification.

However, the increased flexibility of courses has allowed a wider range of students to apply for MBAs, schools in many countries suggest. The heavy representation from financial services and management consultancy, which was marked in the 1980s, has diminished, many report. In the UK, interest from those sectors is concentrated in London and southern England. Increasingly, however, schools are receiving applications from the public services; many from the National Health Service and, occasionally, some from the police force.

By broadening their appeal, and finding ways of reducing

Employers fear that it may become harder to know what expertise is implied by the MBA qualification

the cost to students of taking these courses, business schools may well have found a way of stemming the threats to their appeal. They may also persuade students that the qualification represents a good return on investment.

But it is not just students who have become averse to risk; the recession, and unhappy experiences with acquisitions in the 1980s, have made many company executives cautious about expansion. The business schools may then also have to make changes to some of the theories of corporate strategy taught in their courses to sustain the long-term demand for their graduates' services.

OECD: **Peter Norman** expands on the abbreviation

An economic think tank

For years the Paris-based Organisation for Economic Co-operation and Development (OECD) has seemed to be the shrinking violet among the international bodies set up after the second world war to manage the global economy.

With its unmemorable name and awkward abbreviation, it has been easy to dismiss the OECD as a mere talking shop, tucked away in one of the more desirable residential areas of Paris.

But this grouping of 25 industrialised nations has acquired a new importance since the end of the cold war marked the triumph of market-based economics and gave a new spur to globalisation.

It may lack the financial resources of the World Bank or the tough prescriptive mandate of the International Monetary Fund. Under the leadership of Jean-Claude Paye, secretary-general since 1984, it has stayed out of the public eye to an extent that has almost certainly damaged his chances of reappointment. Other candidates for the top job have been Donald Johnston, a Canadian politician, and the former UK chancellor Lord Lawson.

But this year's protracted tussle among member states to fill the post of OECD secretary-general and the queue of applicant countries for membership are signs that it has an important role to fill in an increasingly interdependent world economy.

The OECD defies easy definition. It has often been described as the "club" of the industrialised nations. But the expression "think-tank" gives a better idea of its purpose. It is, in effect, a research institute serving economic policy makers. More than 75 per cent of its FFr1.6bn ($290m) annual budget is expenditure on personnel and pensions for its 1,900 staff. About a third are professionals, most of whom are economists.

In a world where knowledge is increasingly seen as the key to economic prosperity, the OECD has a unique role. Its work involves policy analysis, gathering statistics and organising meetings. The flood of its publications reflects only part of its endeavours.

The organisation facilitates the exchange and dissemination of knowledge among policy-makers. Its secretariat provides non-partisan analysis on a host of issues ranging from macroeconomic policy to trade, agriculture, the environment, competition law, international investment, export credits, education, tourism, taxation, migration, health and the impact of technological change on society.

It is also one of the few places where officials from member countries can exchange views without the risk of committing themselves or their governments in negotiations. This helps clear up misunderstandings which otherwise would bedevil international relations. OECD committees, meeting away from the public gaze, have proves to be a good forum for stifling some of the more stupid preoccupations of member governments that could otherwise poison negotiations among states.

Its analysis has sometimes played an important part in clearing international policy logjams. For example, its pioneering work on measuring the cost of farm subsidies helped the agricultural part of the Uruguay Round of multilateral trade negotiations to a successful conclusion.

Over the past year, the OECD has been in the headlines rather more than usual. Mexico joined the organisation, the first new member for 20 years. The way has been opened for separate negotiations on membership with the Czech Republic, Hungary, Poland and Slovakia. The statement issued after this year's annual OECD ministerial meeting in June held out the prospect of South Korea, which already participates in many of the OECD's committees and activities, becoming a member by the end of 1996.

As a further indication of the organisation's increasingly outward-looking nature, the OECD agreed in June to step up the flow of economic assistance to Russia. In particular, it will help develop the legal and institutional infrastructure that Russia needs for a functioning market economy. It will offer advice on economic restructuring and reform of Russia's tax and statistics system as well as carry out a survey of the economy.

The OECD also intends to explore possibilities for co-operation with China and maintain its policy dialogue with the fast growing, newly industrialising nations of Asia and Latin America.

Bulgaria, Romania and Slovenia have asked for policy advice and the organisation may help the Baltic states. Indeed, the organisation's work on eastern and central Europe has expanded to such an extent that it accounts for 10 per cent of its activities, as measured by the budget, compared with nothing four years ago.

These ties testify to the high value placed on the OECD's output. The organisation's ability to produce high quality economic analysis of value to its varied member states was further highlighted this year in its "Jobs Study".

Commissioned by governments in 1992, this underscored how dangerous unemployment is for the future welfare of industrialised societies. To tackle the crisis of 35m unemployed in the industrialised world, it provided a compendium of 60 detailed policy recommendations to help member states cope with economic change.

However, applying the lessons of the "Jobs Study" in individual member states will, officials say, be a "huge piece of work". It will be a further strain on already limited resources which are having to cover a wide-ranging programme of work.

Foreign exchange: **Philip Gawith** assesses a change in attitudes

Customers back in favour

Customers are back in fashion. That is the short message of foreign exchange markets in 1994.

After a period of extraordinary profits in 1992/93, the focus has now swung sharply back towards relationships and service. The customer has been enthusiastically rediscovered, and his patronage is the subject of more keen competition.

In 1992/93, it was proprietary traders – trading for banks' own account – who were the hot property in the labour market. Now, the premium attaches to corporate sales people who have a good set of client relationships.

The catalyst for this shift was the US Federal Reserve's decision to raise interest rates on February 8. Until then, the foreign exchange markets were riding the crest of a wave, driven by strong rallies in US and European bond markets, and the extraordinary volatility surrounding the exchange rate mechanism (ERM) crisis in Europe.

The downward trend in interest rates, and the one-way bets which the ERM provided, gave banks and investors the confidence to take large leveraged positions, and to make huge trading profits.

The decision in August 1993 of the European Union's finance ministers to widen the ERM's fluctuation margins to 15 per cent around either side of the system's bilateral rates, from 2.25 per cent, removed one of these trends. Just as surely, the Fed removed the other when it signalled the turn in the interest rate cycle. This unleashed fears of rising inflation, causing enormous dislocation in world bond markets. Yields rose sharply and investors with large leveraged positions suffered heavy losses. This dramatic loss of liquidity spilled over into much more cautious position-taking in the foreign exchange markets.

David Cocker, economist at Chemical Bank in London, comments: "The lack of ability of people to make money in the bond markets has meant that institutional investors have pulled their horns in."

They were not the only ones. Some of the hedge funds, who figured so conspicuously in driving markets up, made large losses when they turned. George Soros, for example, confirmed that funds under his management made a $600m loss in a single day – February 14. The proprietary trading desks at some banks also made large losses. The net effect was that these investors reduced their exposure considerably. They shortened their trading horizon, seeking more prices from an interbank market that was increasingly nervous.

Turnover figures are not available to substantiate the extent to which liquidity has been withdrawn, but the bulk of anecdotal evidence suggests that overall volumes, if anything, are slightly lower than in 1993. While customer business appears to have held up fairly well (as would be expected – volatile financial markets do not stop corporates from trading) the level of discretionary activity – from hedge funds and the proprietary trading desks of banks – has been much reduced.

The impact on the profits, though, is clear. Comparisons are tricky, because some banks do not break down their trading income, to show a specific foreign exchange component. What is evident is that those banks with a strong customer base suffered less than those with a stronger trading emphasis. This was especially so during the first quarter, when volatility was highest. Subsequent trading conditions have been much calmer. Where profits rose, they did so only by a small margin. Most were lucky to turn in a flat performance.

If sharp rises in world bond yields provided foreign exchanges with an unexpected banana skin, the dollar provided another. Indeed, the two fed off each other. Only days after the Fed raised rates, the failure of President Clinton and Morihiro Hosokawa, Japanese prime minister at the time, to broker a trade accord, put the skids under the dollar. Many investors lost large sums and this put a further liquidity squeeze on the market.

It was not supposed to be this way. At the turn of the year most observers thought the US economy would outperform its trading rivals, forcing interest rate differentials to move in its favour. Both trends, it was argued, would support the dollar, and many pundits saw the dollar appreciating to DM1.80-DM1.90 by the end of the year, and Y115-120, from DM1.7450 and Y112.50 at the start of the year.

With the dollar at Y99 and DM1.55 in mid-September (having touched lows of Y96.80 and DM1.5235 in July), however, those who were bearish on the dollar had clearly won the day. These analysts stressed that the US's large trade and current account surpluses, coupled with ongoing capital outflows, were inimical to a stronger dollar.

Aggravating matters was the long-running trade dispute between Japan and the US, with the Clinton administration seeking to cut its trade deficit with Japan by obtaining improved market access. For a long time the administration allowed the markets to believe that its policy towards the dollar was at best benign neglect, at worst "dollar debasement" – talking the dollar down, the reasoning being that a cheaper dollar would improve US penetration of Japanese markets.

By mid-year, the administration had changed its tune, and senior officials were at pains to stress that the US needed a strong dollar. By this time, however, markets were well and truly spooked by the spectre of rising interest rates. This cast a pall over US asset markets, and so long as foreign investors remained chary of buying US assets, fearing higher interest rates, the dollar had little chance of recovering.

It was the misfortune of most investors and traders that they stood on the wrong side of the one clear trend – dollar down, yen up. For the rest, the complaint has been of range-bound, trendless trading. A good example concerns dollar/sterling, or "cable", as it is known. In past years the average move has been 12-15 cents. In 1994, though, the currency has traded in a 3 to 4 cent range most of the time.

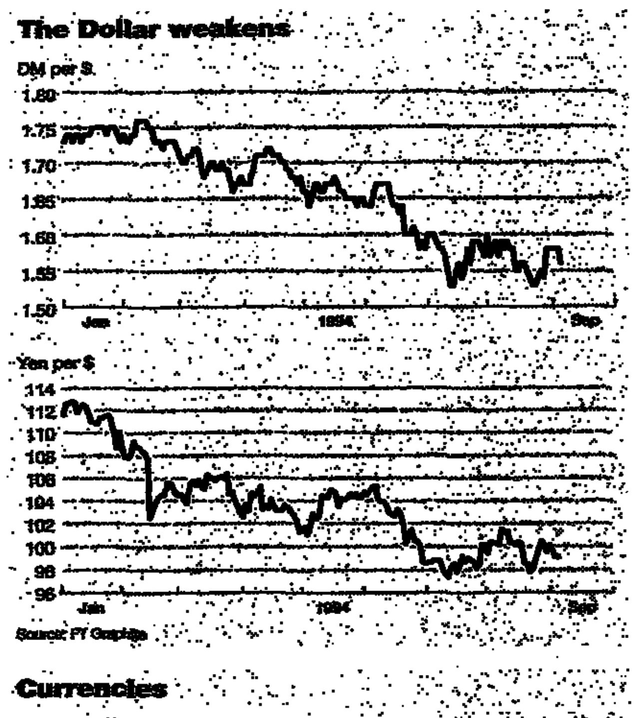
In Europe, the widening of the ERM bands has, ironically, proven a great success. The product of extreme volatility, it has had the desired effect – at least from the perspective of governments and central banks – of stabilising exchange rates. There have been no repeats of the speculative frenzies which drove sterling and the lira out of the ERM.

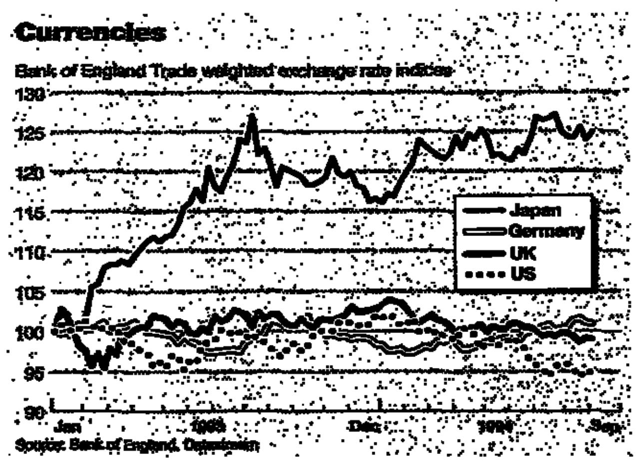
One clear trend in European currencies has been for the market to focus on high deficit countries. Accordingly, the Swedish krona and the Italian lira have been two of the most volatile currencies. This trend was bolstered by the re-emergence in September of the debate over a multi-speed Europe. The fear that some countries might not make it into the mainstream, and hence would be subject to less exacting financial discipline, caused investors to resort to safety first habits.

Further afield, exotic currencies remained a growth area as corporates continued to globalise their activities, and fund managers continued their pursuit of emerging markets.

Investors, however, are more cautious following some chastening experiences.

Looking ahead, while most market participants are hoping that 1995 will prove a more fruitful year than 1994, few are expecting a return to the halcyon days of 1992/93.





Unemployment: economic recovery will not on its own provide the answers, writes **Martin Wolf**

Choice between more jobs and good jobs

INDUSTRY

This has been the year for the jobless, not so much for helping them as for talking about them. This is not surprising, since the level of measured unemployment stands at 35m (8¼ per cent) in the members of the Organisation for Economic Co-operation and Development and 24m in the group of seven leading industrial countries alone. The concern is also appropriate, despite the fact that economic recovery has spread to most industrial countries. Recovery will reduce unemployment. But it will *not, on its own*, lower it to levels once deemed socially essential, especially in Europe.

In fact, the year of the jobless started last December with the release of the European Commission's White Paper on growth, competitiveness and employment. This was followed, in March, by President Clinton's *jobs summit* in Detroit. Then, in June, there appeared the OECD's long-*awaited jobs study*.

Finally, at the G7 summit in Naples, the leaders endorsed a seven-point plan to tackle this scourge. The plan called for: improved skills, through better education and training; reduced labour rigidities, through lower indirect employment costs and fewer regulations; *active labour market policies*, to enhance incentives for the unemployed to seek work; *assistance to promote innovation* and the spread of new technology, including an integrated infrastructure for global communications; job creation in the leisure and environmental protection industries, which are regarded as potential high-growth areas; increased competition, through elimination of unnecessary regulations; and *programmes to enrol employers* and trade unions in the search for new jobs.

The approach is highly eclectic, for two reasons: first, because of divergent views within the G7 about the relative weights to be given to market forces and government intervention; and, second, because there is not one employment problem, but the two distinct ones of jobs and pay.

On jobs, the North Americans have triumphed over the Europeans. During the past 35 years, employment in North America has risen 80 per cent, while in the European Union it has risen only 10 per cent. The unemployment rate has shown little upward trend in North America, while in the EU it has risen, cycle-by-cycle; from around 2 per cent in the mid-1960s to some 12 per *cent today. Moreover, since* 1973, more than four-fifths of the employment growth in *North America has been in the* private sector, while in the EU more than half has been in the public sector.

The European failure has, as the OECD report shows, a host of unpleasant ramifications:

■ The EU's male participation rate – the proportion of the working age population in work – fell from more than 95 per cent in 1960 to below 80 per cent in 1991, while in the US it declined from just over 90 per cent to about 85 per cent.

■ The female participation rate in the EU, at 55 per cent in 1991, is far below that in North America, where it is close to 70 *per cent. The EU rate has also* risen by much less than the North American one since 1960, when the two were much the same.

■ At 20.6 per cent in 1993, the EU's youth unemployment rate, was well above the 13.8 *per cent in North America.*

■ And the long-term unemployed – those out of work for more than a year – made up 42.2 per cent of total EU unemployment in 1992, compared with only 11.2 per cent in North America.

The performance of the EU does look dreadful – and so, indeed, *it is*. But *relative* North American success came at a heavy price: poor performance of real wages, along with greatly increased pay inequality. Between 1978 and 1993 average US real wages stagnated. But over the same period, German real wages rose by 18 per cent, French ones rose by 26 per cent (between 1978 and 1992) and British ones rose by 31 per cent.

Not only have average real wages stagnated in the US, but inequality has considerably increased

Not only have average real wages stagnated in the US, but inequality *has considerably* increased. In fact, during the 1980s pay-differentials widened in all the English-speaking industrial countries, while there was no comparable rise in inequality within continental Europe.

Behind these contrasting developments lies a mixture – one whose precise composition *remains controversial – of two* underlying causes: technological change is the more important; international trade is the more controversial. The latter consists of shifts in comparative advantage, as the growing outward-orientation of developing *countries generates a significant* increase in the global supply of labour-intensive manufactured products. These two forces have generated a significant shift in demand from unskilled labour and towards relatively skilled labour.

The OECD comments in its *jobs study* that, "*in most* countries where relative wages have been flexible (the United States, Canada, Australia), both the relative employment and unemployment rates of the unskilled changed little during the 1980s. In comparatively inflexible Europe, on the other hand, both relative employment and unemployment rates deteriorated." But in the English-speaking countries, where employment has held up *fairly well, the price has been* paid in declining relative wages of the unskilled.

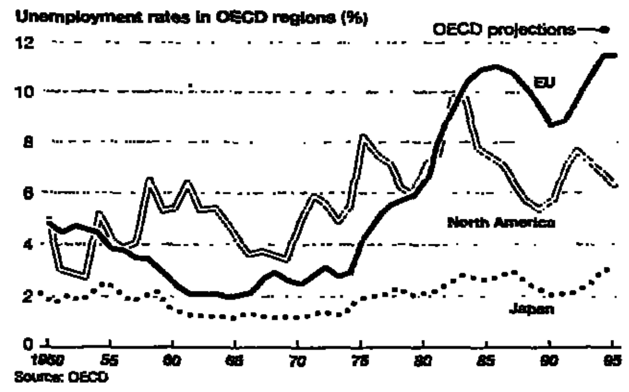
The question then is not whether jobs can be created. Obviously, they can. The challenge is to provide what President Clinton has promised the American electorate, namely many more "good jobs".

Can that be done? Or are the *citizens of advanced economies* condemned to choose between more jobs, which may pay less and less, or fewer, but "better" jobs? Robert Reich, President Clinton's labour secretary, argued at Detroit, that "there is a third choice, and that third choice may be to combine the kind of investments in education and training and appren*ticeship that we find in* Europe, with the dynamic labour mobility and flexibility we find in the US, all encased within macro-economic policies which encourage growth and jobs".

How far does such eclecti*cism – further elaborated* (apart from the emphasis on macro-economic expansion) in the Naples communiqué – provide the solution? Improvements in the quality of labour must be important, although high-quality basic education *probably matters quite as* much as training. Improved economic dynamism must matter, too. Yet that depends not just on deregulation and increased competition, but also on achieving far higher rates of capital accumulation.

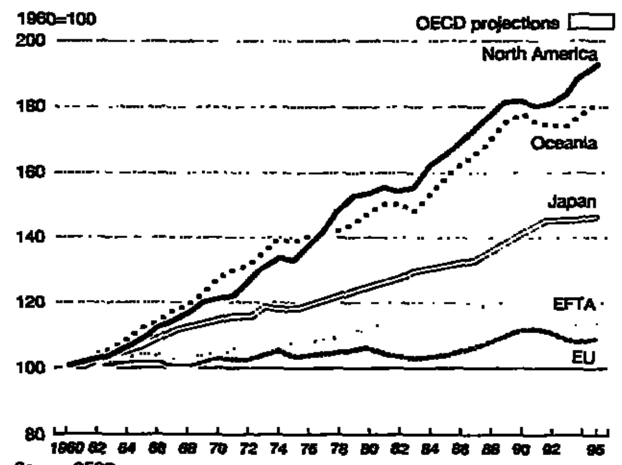
The most attractive example has, in fact, been provided by Japan, which has historically come closest to secretary Reich's ideal. Japan's unem*ployment rate, even after a* recession, is only 3 per cent. Between 1978 and 1993, Japanese real wages rose by 49 per cent. The question for the future is whether the other industrial countries can manage to replicate some of the Japanese labour market success – or whether Japan, already afflicted by a long recession, catches the employment maladies of North America, of Europe, or even of both.

OECD unemployment



Source: OECD

Employment growth in OECD regions



Source: OECD

Minimum wages: **Edward Balls** examines three studies

US research causes rethink on pay theory

Once the bugbear of *free-market analysts*, minimum wages are finally seeking intellectual respectability. Five years ago most economists would have agreed with the proposition that minimum wages cost jobs. But in recent years, a growing body of evi*dence has accumulated which*, taken together, provides a counter-blast to this conventional wisdom.

Not that conventional economic wisdom has a good track record. Not so long ago most British economists would *have sworn that a devaluation* of the currency would feed through into wage inflation. Even the most devout advocates of monetary targets are a *little more reticent these days* in pushing the predictive powers of their favourite measure.

Nor have policy-makers been inclined to accept the basic implications of standard economic analysis, and minimum wages are no exception. The US economy – closer to the classical economic textbook model then most developed countries – has had a federal minimum wage *for decades*. And, within Europe, only the UK has no minimum wage protection at either national, regional, or sectoral level.

France, Netherlands, Portugal, Spain and Luxembourg have a statutory minimum wage, while in Belgium and Greece a national minimum wage is set by collective bargaining. In Germany, Italy and Denmark, pay minima for individual sectors are set by binding collective agreements covering a large proportion of the workforce *while*, in Ireland, legal minimum rates are set for certain low-wage sectors such as hotels and catering.

But the minimum wage does appear to be one area where policy is leading economic research. Anxious to investigate whether increases in minimum wages really do reduce employment and therefore whether low-wage labour markets do conform to the standard textbook theory, a distinguished group of US *economists* has examined the effects of recent changes in state and federal minimum wages. Their results have turned conventional wisdom upside down.

For these studies find that low-wage markets do not work like simple markets on a Saturday morning. Setting a market-clearing price for straw*berries is a fairly* straightforward process. If strawberries are plentiful then a *relatively high-price floor* will lead to a glut. But the same logic does not apply to labour markets – notions of fairness, commitment to par*ticular jobs and information* about available alternatives make people a more complicated commodity.

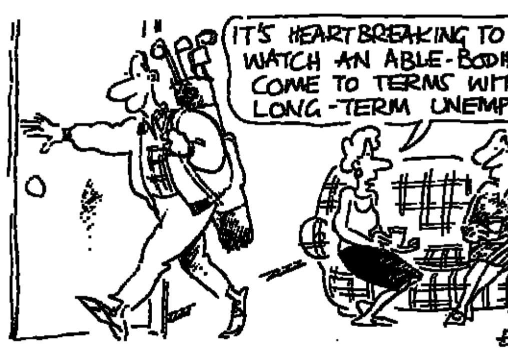
In fact, the classical assumptions about the labour market – that employers can easily hire workers and that they can *costlessly get all the information* they need about available jobs and wage rates – are almost never met in practice. When turnover is rapid, and workers are young and inexperienced, it is quite possible for different workers of the same age and with the same skills to be paid very different wages, even in the same company. Under these circumstances, the standard model does not *apply*.

The US studies, all published by the National Bureau of Economic Research in Cambridge Massachusetts, are:

■ Card (1991). The increase in the US federal minimum wage in 1990, the first for a decade, provided a good natural experiment to test the standard economic theory. David Card, of Princeton University, examined the effect of this increase in the federal minimum wage from \$3.35 to \$3.80 in 1990. He compared its impact on states with differing proportions of low wage workers on the assumption that if the increase in the national minimum wage *reduced employment, then* total employment should fall faster in low-wage states such as Arkansas, compared to richer states such as Massachusetts. In fact, Card found no significant differences in employment growth in the following year while employment appeared to grow faster in the low-wage states.

■ Katz & Krueger (1992). The federal minimum wage was again increased in 1991 – from \$3.80 to \$4.25. Lawrence Katz, of Harvard University, and Alan Krueger, then at Princeton, conducted a survey of employment and wages in 100 *Burger King restaurants* before and after the increase. Again they found no evidence that employment fell. In fact, employment appeared to rise and, more important, by a greater amount in those stores which previously paid the lowest wages and therefore had to make up the biggest increases.

■ Card and Krueger (1993). *The most compelling survey* was conducted by Krueger, now chief economist at the US Labor Department, in conjunction with Card. In April 1992, *New Jersey increased its minimum* wage from \$4.25 to \$5.05, giving it the highest state minimum wage in the US. Card and Krueger surveyed 410 fast-food restaurants before and after the change both in New Jersey and in neighbouring eastern Pennsylvania where the minimum wage had stayed at \$4.25 an hour. The average starting wage at fast-food restaurants in New Jersey increased by 10 per cent following the rise in the minimum wage. By December 1992, *full-time equivalent* employment had risen in New Jersey's fast-food restaurants, and fallen in Pennsylvania. The biggest increases in *employment occurred in those* New Jersey stores which were previously paying the lowest wages.



The US evidence is overwhelming: increasing minimum wages to a tolerable level in low-wage labour markets does not cost jobs, and can even increase employment. And a recent UK survey tells the same story about the UK *wages council rates*. Until their abolition last year, the rates set for particular wages councils declined steadily in real terms. But a study by Steve Machin and Alan Manning of the London School of Economics found no evidence of positive employment effects resulting from this decline. Instead, employment declined in industries where wage council rates fell sharply.

One result of this growing evidence that minimum wages need not cost jobs has been a *softening of the attitude of the* Organisation for Economic Co-operation and Development. In its recent Unemployment report, the OECD dropped its previous vigorous opposition to minimum wages, warning instead that too high *minimum rates will eventually* bite into employment, and that they cannot be the central plank of any anti-poverty strategy. Most families living below the poverty line in developed countries are poor because of old age, unemployment or children rather then low wages.

What is clear, in the modern *labour markets, is that* minimum wages can be an effective part of a wider anti-poverty strategy to the extent that they make the benefit systems work more effectively. The Clinton administration, still reportedly considering an increase in the federal minimum, has placed more stress on the Earned Income Tax Credit – a taxable credit to low-wage working families with children. But, as this year's economic report of the president argued, the minimum wage floor is necessary to prevent bad employers from cutting wages and allowing the state to subsidise low pay.

In short, it does appear that a minimum wage can be an effective tool as part of a broader anti-poverty strategy. Advocates of minimum wages are no less vociferous than in the past.

But today they have more sophisticated arguments, and a wider body of evidence, at their disposal.

The author is economic adviser to Gordon Brown, the UK shadow chancellor

William Tell Monument, Altdorf

Statue of Liberty, New York

Globalisation: **Stephanie Flanders** examines the explosion in cross-border investment flows

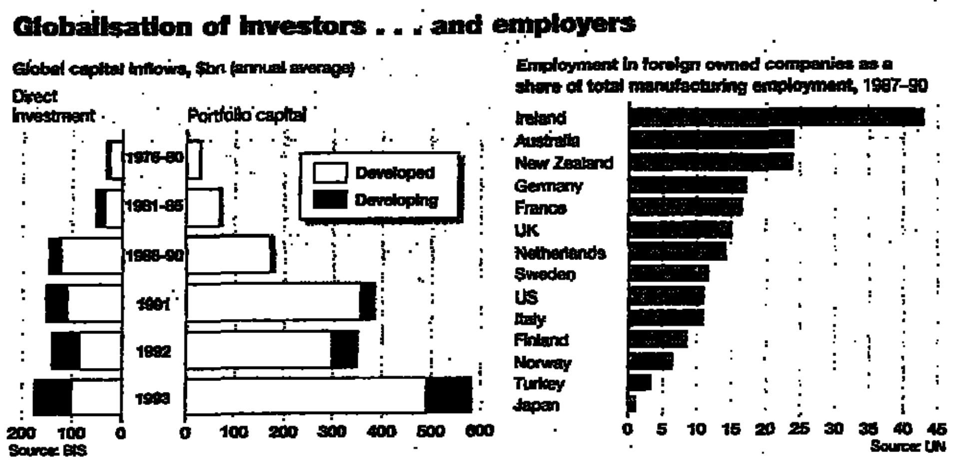
Strategies build upon knowledge base

Contrary to popular belief, the globalisation of capital is nothing new. In fact, relative to world output, cross-border investment flows are only now approaching the level reached before the first world war. Foreign direct investment represented 9 per cent of world output in 1913, according to some estimates, compared to 8.5 per cent in 1991.

Historians, it seems, would be unimpressed with the explosion of international investment flows described in the chart. Why is it that pundits and policymakers are impressed?

One answer is that today's high degree of capital mobility contrasts sharply with that of the more recent past. In the inter-war period, the world's leading economies turned inwards, and international markets for goods and capital largely collapsed. In a sense, recent trends have simply rebuilt them.

But this more recent push towards economic integration also differs from the earlier one in important respects, and it is the differences which most concern governments. Technological change and deregulation have not only opened up the world market; they are increasingly changing the global production process itself. Individual countries worry that they can no longer choose their role.



The first difference is that the production and sale of goods is internationalised at a deeper level. This year's United Nations World Investment Report states that as much as a third of world output is now directly controlled by transnational corporations (TNCs); "their indirect influence is almost certainly much greater".

As in the 19th century, a UK company, can set up a factory in Brazil, either to meet home demand or to gain access to the Brazilian market. In 1993, there were some 206,000 foreign affiliates of multinational companies located worldwide: up from 3,500 in the early 1960s. Their combined sales in 1991 exceeded world exports by more than 20 per cent.

But that same multinational can also opt for making just one input at the Brazilian plant, co-ordinating the process of making and selling the final product across countless national borders. Indeed, more than a third of world trade flows in 1989 were within companies, compared to one fifth in the early 1970s. Economist David Levy calculates that the value of US "intra-firm" exports rose by 70 per cent in the 1982-9 period alone.

The second difference lies in the nature of the goods themselves. Information technology has enabled companies to co-ordinate their traditional activities worldwide, as outlined earlier. But exploiting the latest computer and communications technology to do so means that the "knowledge" aspect of their operations is more important.

It is not surprising that financial companies were among the first to exploit the globalising potential of the "information revolution". Communicating information efficiently has long been at the core of their business. But even in old-fashioned sectors, such as automobile manufacturing, companies are finding they must compete as much on their ability to deploy knowledge as on their simple capacity to make cars.

In these global industries, "the new barrier to entry is not volume or price", argues Robert Reich, former Harvard academic and now US secretary of labour. "It is skill in finding the right fit between particular technologies and particular markets. Core corporations no longer focus on products as such: their business strategies increasingly centre upon specialised knowledge."

What does this imply for public policy? For one, governments will have to get used to the fact that a significant part of the workforce works for a company headquartered abroad. Mr Reich has argued that this makes traditional industrial policy redundant: public aid for "national champions" may just as well end up creating jobs abroad.

Others claim nationality still dominates a company's outlook. Yet there is now a more tenuous link between where a corporation is registered, and where its workforce is located. According to the OECD, nearly two thirds as many people are employed in the foreign affiliates of Dutch multinationals as hold jobs in the manufacturing sector at home.

Statistics like that one raise the fear that internationalisation spells fewer jobs in rich countries where labour is expensive. But international league tables based on wages alone can be highly misleading. Even if a company makes its location decisions solely on the basis of cheap labour (which is rare), what matters will still be the productivity of that labour, not merely its price. Developed country workers can compete if they have the skills and equipment to justify the higher price.

Nevertheless, rich country worries about employment relate to a broader concern about the global power of TNCs. If communication and transport links allow firms to operate where they like, the fear is that governments can only aspire to keeping out of their way. Nations can no longer plot their separate economic paths.

Today's high degree of capital mobility contrasts sharply with that of the more recent past

The authors of the World Investment Report, among others, dispute this interpretation. Recent experience, they argue, shows that both "governments and geography still matter"; and only part of the policy recipe for national success will be *laisser-faire*.

Admittedly, some of the diversity of that experience across countries comes from misguided attempts to go it alone. Oppressive and insular regulations and taxes can deter foreign direct investment and employment from a country, just as wiser policies can encourage it. Fully three-quarters of all foreign direct investment in developing countries in the 1980s went to 10 countries. State-led liberalisation efforts were a key factor attracting outside investors.

But countries will continue to differ for more positive reasons in a global economy, all allowing a wide scope for government activism. For, paradoxically, perhaps, a globalised strategy tends to make local networks even more important to a firm's ability to "add value", whether it is in creative research and development, team-based "just-in-time" production, or locally tailored product marketing. The state has a crucial role in providing the necessary environment for such networks to thrive: not least, an educated and flexible workforce and sound public infrastructure. Thanks to the globalisation of their appeal, the national rewards of doing so are larger than ever.

Telecommunications, computer and media industries

Boxes and pipes are the stuff of a revolution

Old hands in the communications business have been experiencing a sharp sense of *déjà vu* over the past few months.

Telecommunications, computer and media companies have been striking deals and forming alliances suggesting that the long-anticipated phenomenon of convergence may be at hand.

Convergence implies the coming together of communications channels and data processing capabilities to provide services ranging from information to entertainment and shopping, to the office and the home.

At the heart of the business is the fact that information of every kind – text, moving pictures, sound and graphics – can be converted to binary digits, transmitted over telecommunications lines and manipulated by computer.

These days people are using the term *multimedia* to describe convergence but some would argue that nothing seems to have changed since the 1970s when online information services for the mass market were pioneered with no great success. Examples include home banking in the US and viewdata in the UK.

What is different today? Costs have come down appreciably, technologies have improved and matured and the regulatory environment favours the introduction of innovative services in the US and, increasingly, Europe and the rest of the world.

The components of the multimedia revolution are the "boxes", the computers which process the data, the "pipes", the telecommunications channels into the home and office, and the "stuff", the media content.

While most attention has so far been focused on expensive deals involving content providers, most leading computer hardware and software companies have been experimenting with elements of multimedia.

The long-anticipated convergence may have arrived at last

Oracle Corporation, for example, the world's third largest software company with revenues of $1.3bn in 1993, announced an alliance with Bell Atlantic, a US regional television company, to offer commercial interactive television services in the US.

Oracle is a specialist in database management; this year it announced the Oracle Media Server, a technology that expands Oracle's management of information to audio, video, text and images. The plan is to use this software to manage thousands of films for "video-on-demand" as well as home shopping and information services. The software can be run on a variety of computers. For the Bell Atlantic collaboration, a supercomputer, a massively parallel system developed by the Californian company nCube will be used.

Other companies have taken somewhat similar approaches. International Business Machines, Digital Equipment, and Hewlett Packard have all developed systems which are being used in interactive television trials. IBM, for example, is working with Andersen Consulting and Ameritech, one of the seven US regional Bell telecoms operators, on a trial in Chicago which will offer home shopping, electronic magazines and training. The system is based around one of IBM's largest mainframes.

The US computer giant has one of the longest lists of industrial partners in multimedia. It includes Sony for mini-disk titles, PictureTel and British Telcom for desktop videoconferencing systems, Muze for multimedia kiosks and Blockbuster Entertainment Corporation for digital entertainments.

Microsoft, the world's largest software company, has a distinctly different approach. It launched in May this year software it calls "Tiger". Tiger is the result of collaboration with Compaq, the personal computer maker, and Intel, the semiconductor manufacturer.

The essence of Tiger, according to Microsoft, is that it can provide multimedia suppliers with the "boxes" at a fraction of the cost of systems from other developers. The Tiger software runs on inexpensive microcomputers such as Intel's top-of-the-line Pentium microprocessor. Microsoft has alliances with TCI, the US cable television company, and NTT, the Japanese telecommunications group, for multimedia trials in the US planned for the end of this year.

However, it is important to get the pace of convergence in perspective. A brief glance at the telecoms sector shows that most recent corporate activity – and expenditure on alliances and joint ventures – has been expended on promoting or defending against competition in core telecoms services.

In the US, most of the successful big alliances of the past year have been of this kind. The $13bn take-over of McCaw Cellular Communications by AT&T, for instance, amounts to the swallowing-up of one phone company by another. In this case the "convergence" at stake is within the industry – i.e. the coming together of fixed-wire and cellular telephony services.

By contrast, several large cross-media deals have collapsed in the past year – once the partners got to know more about each other's business. In April, Southwestern Bell, a Baby Bell, abandoned plans to form a $4.9bn cable television partnership with Cox Enterprises, the privately-owned media group. That came shortly after the spectacular collapse of the $22bn proposed merger of Tele-Communications Inc, the largest cable company, and Bell Atlantic, the Philadelphia-based Baby Bell.

There is a growing belief among analysts that tie-ups between the telecoms and cable/entertainment/computing industries are going to proceed much more slowly than envisaged a year ago.

Superhighways open up the market for interactive multimedia services

Even successful cross-media alliances are not always all that they seem. The decision by US West, another Baby Bell telecoms company, to take a 25.5 per cent stake in Time Warner Entertainment, for instance, was motivated by its desire to offer telephony services over Time Warner's cable networks. Says Mr Chuck Lillis, US West's chief planning officer: "The Time Warner deal is essentially about giving us more networks. Of course, they've also got the best studios in the country, and the longer you go out in time, the more it is about having access to their programming and products."

The building of fibre-optic superhighways opens up the market for interactive multimedia services as never before. Analysts debate the timescale, but the destination is now increasingly clear. The key question is whether telecoms companies become providers of services, or simply utility-style managers of networks.

The telecoms companies dearly want to be providers, perceiving utility network management to be a low margin, unexciting business. Their problem is that they know little about the new types of services, and have difficulty justifying mega-alliances on present revenue projections.

Sir Iain Vallance, chairman of British Telecommunications, frankly confesses that BT has "serious thinking" to do in this area. BT decided to steer clear of home banking – "a close call" – and has left banks themselves to provide home telephone banking services, such as First Direct, without itself competing in the market.

The next few years are set to pose a series of close calls, the outcome of which will determine whether convergence predominantly involves technologies and services, or comes to herald massive industrial restructuring.

Alan Cane and Andrew Adonis

Convergence: **Andrew Adonis** on the information superhighway

Hype obscures real needs

It used to be simple. Telephone calls mostly travelled across copper wires, and mobile phones, using cellular technology, were expensive yuppie toys used only by thrusting professionals.

In fact, most of the world never had – and still does not have – telephone connections of any kind. The challenge for the telecoms industry is to meet basic telecommunications needs in the developing world, while the developed world races ahead to the "information superhighway" that will turn the conventional telephony into one of several services provided via a multimedia "terminal" which, in all likelihood, will turn out to be the personal computer.

The race to the "superhighways" has generated an industry of writers vying with each other to paint the most plausible and/or exciting picture of the multimedia world as the computing, telecoms, and entertainment industries converge. The FT's front page recently featured a US company planning to offer virtual reality weddings – in heaven, if requested – and its business pages are taken up, day by day, with proposed multibillion-dollar mergers or alliances between companies in the different sectors.

However, it is important not to soar away on hype, which too easily results from a failure to grasp three key facts about the future of telecommunications:

■ First, the priority for the developing world is not virtual reality, but basic telephone lines. The need is to vastly increase network coverage within a few years. China, for instance, wants to boost its number of basic telephone lines from about 30m to 120m by 2000, an increase equivalent to three times the existing network of British Telecommunications. Barely two in 100 Chinese have a telephone line, compared with 49 per 100 in neighbouring Hong Kong.

"We used to think it was new roads that mattered; now we realise that telecoms links are more important – and a crucial agent for growth," a senior Chinese official puts it. OECD studies chart a direct relationship between growth in telephone line density and economic growth: the precise projections are debatable, but no one denies that for developing countries there is a close connection.

Barely two in 100 Chinese people have a telephone line, compared with 49 for every 100 in neighbouring Hong Kong

■ Second, in the free world buyers, not sellers, sustain markets. The multimedia industry has got to come up with saleable products – and they are mostly still in their infancy. Even such obvious products as home shopping and video-on-demand are making slow, faltering progress.

■ Third, convergence *within* industries can be as important as convergence *between* industries, even if it is less exciting to observe.

This last point is particularly relevant for today's telecoms industry, where potentially the most significant technological development is the convergence of "fixed" and "cellular" systems.

In the developed world, "fixed" phones are becoming increasingly mobile, with the introduction of "intelligent networks" which enable, for instance, personal numbering systems to track subscribers down to their location via a single number. As Torbjorn Nilsson, strategic planning director at Ericsson radio systems, the Swedish supplier, puts it: "People want to call people, not places."

Meanwhile, the falling cost and increasing versatility of cellular systems is rapidly turning the mobile phone into a consumer good. It is only a matter of time before a single handset will be able to relate to both fixed and mobile networks, with the user unaware of the means by which the call is being transmitted.

However, the implications of fixed/cellular convergence are perhaps even more profound for the developing world, with the development of "fixed cellular" systems which could slash the cost of installing infrastructure to provide basic line connections. "For us, fixed cellular is one of the most significant things happening in the industry," says Nagarajan Vittal, chairman of India's telecommunications commission. He sees it playing a "key role" in lifting India's number of telephone lines from the present 8m.

Fixed cellular is still in its early stages, but developments in Mexico and Indonesia may offer significant pointers to the future.

Indonesia boasts 16 telephone lines per 1,000 people – compared with 460 per 1,000 in the UK – putting it towards the bottom of the telephony league even in the Asia-Pacific region. To help achieve rapid line growth the Indonesian government has licensed a company to build a "fixed cellular" network in urban areas.

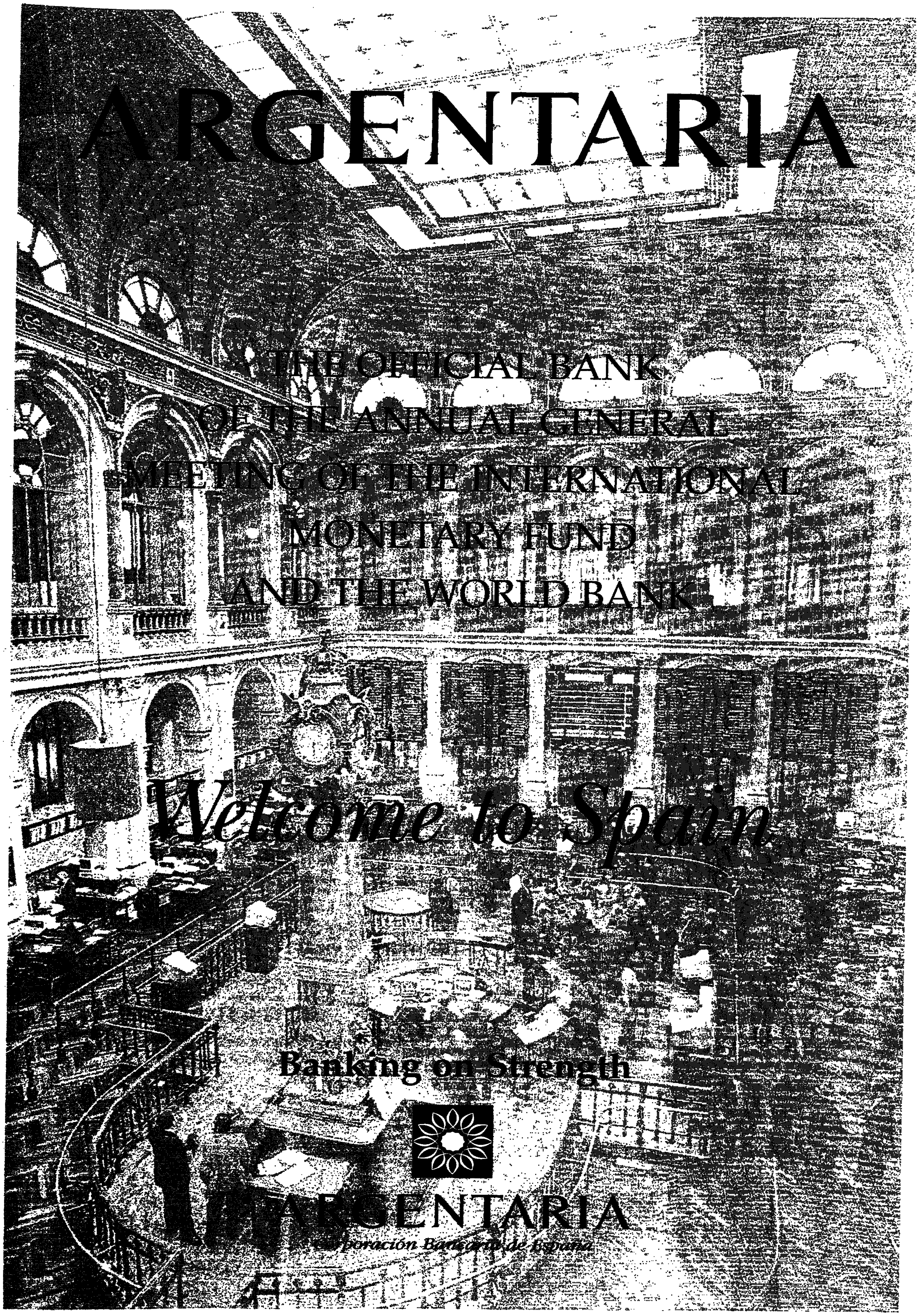
The network is for fixed telephones serviced by radio base stations. Initially connection and call charges will be similar to those for conventional fixed-line telephones, with a monthly rental higher to reflect a shorter waiting period for connection. But in time fixed cellular charges could be far cheaper.

Ratelindo, the new fixed cellular operator, is a joint venture between Indonesia's state-owned telecoms operator and Bakrie Electronics, a private company. It is licensed to provide 280,000 fixed cellular connections – 250,000 in Jakarta and 30,000 in West Java.

Its fixed cellular system – supplied by Hughes, a US manufacturer – is a flexible overlay network based on the US TDMA digital system. Ratelindo claims that it provides a voice quality equal to that of a fixed-wire telephone.

Hardianto Kamarga, president-director of Ratelindo, hails the Hughes system as a breakthrough, saying it is "the most spectrum efficient digital cellular technology commercially available today", with about three times the capacity – that is subscribers per base station – of GSM, the digital cellular mobile system used in Europe.

"The fixed cellular system has a subscriber capacity equal to between 10 and 20 per cent of the fixed network," says Mr Kamarga. As for the cost: "at the moment landline telephones are less expensive than comparable wireless systems for the same traffic capacity, but in the operating environment we have in Indonesia the balance can swing in favour of wireless." As fixed cellular evolves, the balance in its favour is likely to shift dramatically – and with it the economics of telecoms modernisation in the developed world.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Motor industry: **Kevin Done** explains why the tables have been turned

Comeback by US carmakers

WORLD CAR SALES FORECAST (000s)*	1993	1994	1995	1996	1997
WORLD	33,134	35,253	36,377	38,042	39,903
West Europe	11,450	12,181	12,743	13,692	14,382
Germany	3,194	3,215	3,306	3,425	3,638
Italy	1,890	1,858	1,948	2,075	2,191
UK	1,778	1,978	2,074	2,236	2,303
France	1,721	1,989	2,051	2,184	2,302
Spain	743	849	867	1,056	1,054
East Europe**	1,334	1,366	1,472	1,550	1,675
Turkey	443	252	287	331	420
North America	9,441	10,245	9,950	9,779	10,150
US	8,702	9,424	9,044	8,822	9,147
Japan	4,199	4,203	4,398	4,628	4,780
Asia Pacific†	2,848	3,155	3,509	3,831	4,027
South Korea	963	1,072	1,167	1,256	1,315
China	430	481	618	758	791
Latin America	1,867	2,061	2,058	2,216	2,404

WORLD CAR PRODUCTION FORECAST (000s)	1993	1994	1995	1996	1997
WORLD (net)††	33,887	35,059	36,554	38,550	40,203
West Europe	11,372	12,102	12,847	13,823	14,206
Germany	3,794	3,946	4,085	4,310	4,391
France	2,836	2,996	3,138	3,332	3,384
Spain	1,505	1,661	1,776	1,801	1,808
UK	1,375	1,433	1,565	1,840	1,918
Italy	1,117	1,213	1,314	1,457	1,558
East Europe**	1,800	1,780	1,920	2,100	2,294
Turkey	348	234	258	297	378
North America	7,329	7,961	7,968	7,758	8,042
US	5,982	6,745	6,750	6,463	6,660
Japan	8,499	7,942	8,268	8,723	9,018
Asia Pacific†	2,807	3,154	3,542	3,914	4,342
South Korea	1,512	1,791	1,962	2,150	2,389
China	241	216	335	451	563
Latin America	2,214	2,423	2,339	2,603	2,651

*1993 actual, 1994-1997 forecasts. ††Excluding traceable double counting. **Including Commonwealth of Independent States. †Excludes Japan.

Source: DRI World Car Industry Forecast Report – August 1994.

The tables have been turned in the world motor industry. After several years of intense pain and record losses the big three US carmakers had moved strongly back to record profits by the second quarter this year.

Earnings at General Motors, Ford and Chrysler are continuing to rise strongly, while several of their European and Japanese rivals are still struggling to fight their way out of recession and away from the red ink, that has washed over their operations.

Sales of cars and light trucks in the US are now in the third year of recovery and are forecast to rise by 12 per cent this year to more than 15.5m. In Europe the tide also appears to have turned this year, while in Japan the signs of a turnaround remain fragile, although the most recent sales figures suggest that demand is no longer falling.

New car sales in western Europe fell by more than 15 per cent last year to 11.45m, the sharpest annual decline in the post-war period, while new car sales in Japan have fallen for three years in succession.

The recession has bottomed out in western Europe with sales in the first seven months rising by an estimated 6 per cent year-on-year to 7.42m, but there are fears that the rate of improvement may weaken in the second half of the year.

New car demand worldwide fell last year to the lowest level for six years, but the recovery this year has ended three successive years of falling sales, and the outlook for the medium term is promising.

The latest study by DRI/McGraw-Hill, the London-based automotive analysts, forecasts that a sustained period of growth is in prospect with worldwide new car sales rising gradually to reach record levels throughout the second half of the 1990s. Sales worldwide are forecast to increase by 6.4 per cent this year to 35.3m from the low point of 33.1m last year.

The recovery was driven first by the strong rise in demand in North America and by continuing significant growth in the Asia/Pacific region (excluding Japan).

"Global car sales could rise by 6 per cent or more this year as Europe pulls itself out of recession, joining the expanding markets of North America, Latin America and Asia/Pacific," says the latest DRI report. "There nevertheless remain problem areas with Japan still in recession and the economic crisis of Turkey producing something close to a collapse in the market."

The rate of growth will gather pace in 1995 as both the German and Italian markets emerge from recession, and sales in western Europe are forecast to rise by around 5 per cent a year in each of the four years from 1994 to reach a record level of 13.7m in 1996 and 14.4m in 1997.

New car sales worldwide are forecast by DRI to rise by close to 30 per cent to 42.6m in 1999 from 33.1m last year. However, much of this growth will originate outside the traditional car consuming nations of western Europe, North America and Japan. South Korea, China, Thailand, Latin America and eastern Europe offer the best outlook for growth for the 1990s and beyond.

The world's leading carmakers are united in the view that the Asia/Pacific region holds the brightest prospects, and automotive sales in Asia (excluding Japan) are expected to triple during the next 15 years.

According to Alex Trotman, chairman and chief executive of Ford, the world's second largest vehicle maker, around 80 per cent of the world's population lives outside the traditional automotive markets of western Europe, North America and Japan, but the number of cars and trucks sold in these regions represents only about 8 per cent of the world's total.

The European industry is in the midst of hectic transition, as the European Union moves to become an open car market by the end of the decade with the removal of all quota restrictions on car and light commercial vehicle exports from Japan at the end of 1999.

Several of the first wave of Japanese car plants in Europe – built by Nissan, Toyota and Honda – are now in production and Mitsubishi Motors is due to open its first European car plant next year in a joint venture with Volvo.

Four of the big six volume car producers in western Europe, the Volkswagen group of Germany, PSA Peugeot Citroën of France, the Fiat group of Italy and Ford of Europe, were in loss last year, while profits declined steeply at Renault of France and General Motors Europe (Opel in continental Europe and Vauxhall in the UK). The pressure of recession and the need to rationalise has forced all vehicle makers in Europe to reduce their workforces.

The deep recession in Europe and Japan has slowed the previously inexorable advance by Japanese car producers into the world market.

Under heavy pressure from the rising value of the yen, Japanese carmakers have been forced to raise their prices in the US and in Europe faster than their American rivals, which has begun to bite into their market share abroad.

At home Japanese carmakers have suffered an unprecedented period of three successive years of falling demand. Several producers have fallen into loss, most notably Nissan, the country's second largest vehicle producer, and Mazda.

The Japanese industry is being forced to restructure at a time when it is burdened by high fixed costs and high depreciation following recent years of heavy capital expenditure and the building of new assembly capacity in Japan. It no longer enjoys the advantages of earlier years of an undervalued yen and cheap money.

In contrast to the dramatic proliferation of new products at the end of the 1980s, Japanese carmakers are now having to cut the number of model variants and types of options offered, which have "proliferated excessively" in recent years, according to Yoshifumi Tsuji, president of Nissan.

Difficult times have called for some drastic re-thinking of corporate strategies.

Agriculture: **Alan Swinbank** examines the effects of the Uruguay Round agreement

Farmers are waiting for ratification

Throughout the post-war period, while western governments progressively liberalised world trade for industrial goods, most countries protected their domestic farm sectors. As a result world markets for agricultural and food products suffered from depressed and destabilised prices.

In large part, this stemmed from deviations from the normal rules of the General Agreement on Tariffs and Trade, which had been obtained by the US in the 1950s. These provisions allowed import controls and export subsidies to be used in conjunction with domestic farm policies when such trade measures would have been unacceptable for manufactured goods.

Subsequently, with the formation of the European Economic Community, the forerunner of today's European Union, and the development of the Common Agricultural Policy (CAP), the EU's intransigent defence of the CAP has been a significant disruptive force.

As the world's largest importer, and second largest exporter of agricultural products, the EU's policy stance was bound to have important ramifications for world agricultural trade.

In the Uruguay Round of Gatt negotiations, agricultural protectionism was seriously addressed. Assuming that the agreement of December 1993 is ratified later this year, the Gatt contracting parties will start to dismantle their protectionist farm policies next year.

The agreement is complex, but in essence all existing import controls must be converted into conventional import tariffs, a process known as tariffication. The developed countries of the world then have six years to reduce tariffs by 36 per cent on average. Export subsidies must also be reduced by 36 per cent, the volume of subsidised exports by 21 per cent, and the overall level of farm support by 20 per cent. Certain policy measures deemed to have no impact upon production levels are exempt from control.

Some observers believe that this agreement will sweep aside the livelihoods of European and Japanese farmers, leaving the countryside depopulated, the environment despoiled, and citizens dependent upon imported supplies. Greater malnutrition and starvation may occur in low-income countries unable to afford the increased import bill for food supplies. Others suggest that the agreement will not have these dire consequences, but will result in some improvement in agricultural trade.

It is expected that world prices will rise, but these increases will be much less than the efficient agricultural exporters such as Australia might hope for, and the low-income food importing countries might fear.

An Australian study of the agreement suggests that, once the full impact of the changes is felt, well into the next century, world wheat prices might be 8 per cent higher then they would otherwise be, those for dairy products 4 (butter) to 20 (cheese) per cent higher, with meats increasing by 3 to 7 per cent.

Even these modest estimates may be too high. While sticking strictly to the letter of the agreement, countries have the right to minimise its impact on their own farm policies; and it is expected that most of them – certainly the EU – will do so. Furthermore, in many instances tariffication has produced highly protective import barriers which, even when reduced by 36 per cent, will result in little import penetration.

Developing countries dependent upon imported cereal supplies will see an increase in the cost of imports. However, many development economists have argued that the microeconomic incentives that this world price increase will bring to bear on governments to change their policies, and farmers to increase supply, will outweigh the macroeconomic burdens borne by the economy. Fears that food aid will be more difficult to obtain are probably misplaced, because intervention stocks in the subsidised exporting regions of the world are likely to increase as a consequence of the Gatt limits on subsidised exports.

When currencies are non-convertible, foreign exchange in short supply, and distribution systems poorly developed, then food supplies are heavily dependent upon the productive capacity of local farmers.

While this is undoubtedly true of many regions of the world, such a situation does not prevail in western Europe, where international buying-power and modern distribution systems mean that a cornucopia of food products can be delivered to food stores.

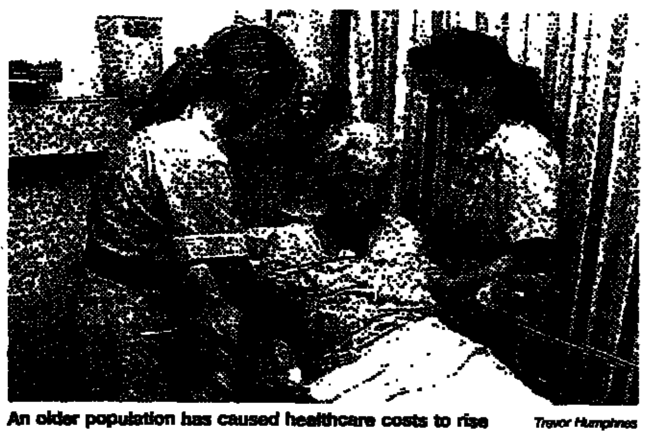
The CAP indisputably affects the price, quality and origins of the food Europeans eat, but it is a fallacy to believe that they are dependent upon the CAP for food supplies. Short of a calamitous disruption to the world food system, European food stores will remain full even if the GATT deal does result in a significant fall in EU farm production. But the output of European agriculture is unlikely to collapse; first, because of the continuing productivity growth, which will result in ever-increasing yields despite the yield-reducing effects of price cuts; and second, because the land and labour, on which European agriculture depends, will be encouraged to remain in the sector, so that it can benefit from the continued payment of Gatt-exempt taxpayer-funded subsidies.

Yet, while the overall impact, for good or ill, of the Gatt agreement is unlikely to be dramatic, it would be wrong to dismiss it as being of little relevance. It took many years, and several Gatt deals, to reduce significantly trade barriers on manufactured goods, and it would naive to presume that faster progress could be achieved in the more heavily protected agricultural arena.

The Uruguay Round is a success in that it extends Gatt disciplines to agricultural trade, and increases the transparency of the support mechanisms in place. In accordance with the agreement, new negotiations are to be embarked upon before the end of the decade with the express intent of securing further substantial reductions in farm support. This timescale will allow farm and other rural businesses to undertake gradual adjustment, and governments to pursue policies which facilitate global food security and environmental protection.

The danger is that governments will attempt to backslide from their recent commitments to reduce agricultural protectionism, and in the pursuit of unsustainable policies generate greater uncertainty for agricultural trade. If the EU, for example, falters in its resolve to reform the CAP, a new budgetary crisis could result in the abrupt abolition of farm support, resulting in a mass of bankruptcies in farming and related industries, and a destabilising shock to world agricultural prices.

The author is head of the department of agricultural economics and management at the University of Reading.



An older population has caused healthcare costs to rise Trevor Humphries

Healthcare: **John Willman** reports

Prescription for cuts is managed competition

The need to cut budget deficits is forcing most governments to look critically at the cost of healthcare, one of the largest components of public expenditure in advanced economies.

Spending on health as a proportion of national income has more than doubled in the member countries of the Organisation for Economic Cooperation and Development over the past 30 years.

This increase has been driven by a number of factors, including the extension of healthcare to cover whole populations. Unit costs such as the salaries of doctors and nurses have risen and new and more expensive types of treatment have been devised. The ageing of populations has also had an impact, since elderly people make greater use of health services.

Much of the burden has been borne by the public purse. With the notable exception of the US, between 70 per cent and 90 per cent of health spending in most advanced economies is financed publicly. Healthcare typically accounts for between 12 per cent and 15 per cent of public expenditure.

The rate of growth of health budgets has eased in recent years. Some countries such as Germany and Ireland have even managed to achieve cuts in the share of GDP going to healthcare during the 1980s.

The slowdown has been achieved by a combination of measures that health economists have dubbed "managed competition", the use of market-type incentives to raise efficiency and improve the quality of care. These measures have been found to work in a wide range of countries with very different health systems.

In some, for example, healthcare is paid for out of taxation. In others, it is financed by compulsory insurance contributions paid either to private insurers, public bodies or a mixture of both.

The extent to which patients are expected to contribute towards treatment costs, the methods of reimbursing hospitals and doctors, and the role of the private sector also vary considerably.

Yet despite these differences, a recent OECD study of health reforms in seven European countries found a remarkable degree of convergence in the policies adopted to curb rising costs. The common key was universal funding under government direction – even where private insurers pay for health services.

Only governments can provide the discipline on costs to bear down on hospitals, surgeons and the pharmaceutical industry. And only governments can insist on universal coverage, which allows medical care to be allocated according to need, rather than ability to pay.

Without this universal cover, insurers select the healthier groups, leaving the vulnerable and ageing with no cover or reliant on state-funded safety nets. The result is that – as in the US – the middle classes pay twice: once for their own health insurance and again through taxation for the safety net.

The creation of a capped, universal budget does not, however, mean socialised medicine delivered through a centralised bureaucracy. Managed competition establishes quasi-markets in which hospitals, doctors and other health organisations compete to provide health services. This provides incentives to improve efficiency through, for example, less frequent use of hospitals for simple operations and greater use of daycare.

Costs are also reduced by paying for healthcare by contracts for the provision of services rather than through fees for each item of treatment which encourages "overtreatment". When Ireland switched to an annual "capitation fee", doctors' consultation rates fell by a fifth.

Several other policy changes can also help in reducing the gap between healthcare demand and funding. These include "co-payments" by patients, which encourage them to behave more like consumers in balancing demand against cost.

And competition between the organisations that fund healthcare can improve the quality of services and provide further efficiency incentives. In the Netherlands, ambitious reforms plan to offer a choice of insurance packages, all offering a basic minimum but with different levels of service and additional benefits.

The US is the one advanced economy that relies largely on voluntary private insurance to provide its healthcare and has yet to adopt managed competition. The result is that health spending is still rising and accounts for 14 per cent of GDP (the OECD average is 8 per cent).

While much of the cost is borne privately, the burden of employer-financed insurance cover weighs heavily on business. And the cost of the two publicly-funded safety net schemes, Medicare and Medicaid, has spiralled, so that health accounts for a higher proportion of public expenditure than in some countries with health services entirely funded from the public purse.

> Geriatric care and social services for the elderly are expected to increase

The ambitious Clinton reform plan involves most of the elements of managed competition, with universal coverage, budget capping and capitation payments. It is in difficulty in Congress, and now seems unlikely to survive intact. But the compromises and most of the alternative plans under discussion would move in a similar direction – though perhaps less radically. While the exact shape of the US healthcare system by the end of the decade has yet to be finalised, it, too, is likely to join the convergence in other OECD countries.

Successful though managed competition has been in slowing growth in health spending, the pace of reform needs to develop and intensify to cope with the continuing increase in demand for healthcare.

A recent survey of 10 OECD countries by National Economic Research Associates, the economic consultants, found that on present trends, all would face a shortfall in funding by 2000. The shortfalls ranged from 2 per cent of GDP in the US to around 9 per cent in the Netherlands.

The gap is partly caused by demographic change. Increased life expectancy may not mean more direct medical care: the extra cost of treating the very elderly is likely to be offset to some extent by the decline of chronic diseases among younger people. But there will be an increase in demand for geriatric care and social services for the elderly, encouraged by the decline of the extended family in which older people were cared for by younger relatives.

But it is also caused by rising expectations about the quality and amount of health services, fuelled by the arrival of new and more expensive forms of treatment.

Healthcare is a "merit good" in economists' terms: as people become better off, they spend an increasing proportion of their income on health services.

The correlation between health expenditure per capita and overall income per capita has become more pronounced in recent decades. This suggests that the struggle to contain the burden of healthcare on public budgets will have to continue into the future, using all the techniques in the armoury of managed competition.

Pharmaceuticals: **Paul Abrahams** discusses the attacks on drugs bills

Bitter medicine for producers

Worldwide recession and falling tax receipts have focused attention on escalating healthcare costs. Last year the US spent almost $1,000bn on healthcare, equivalent to 14 per cent of the country's GNP. That is more than two and a half times the proportion it was spending 30 years ago. The US is not alone. In Japan over the same period the proportion of GNP spent on health more than doubled from 2.9 per cent to 6.6 per cent, while in France it also doubled to 9.1 per cent.

The cause of the increase is ever more expensive and advanced technologies and ageing populations. For some nations the ageing problem presents appalling difficulties. Naturally, an elderly population consumes greater healthcare resources than a young one. In Japan, the most affected country, the proportion of those 65 and over will increase from 5.7 per cent of the population in 1960 to 23.9 per cent in 2025. The trend is less pronounced in most developed nations.

Faced with ever-greater healthcare costs, payers, ranging from governments to insurers and businesses, have been targeting pharmaceuticals. In some respects this is unfair. Except in Japan, drugs seldom consume a significant proportion of healthcare spending. In the UK and US, for example, spending on medicines represents 10 per cent and 7 per cent of all healthcare spending.

However, politicians realise it is easier to slash spending on drugs than to cut hospital beds or suppress medical posts. The industry, particularly in the US, has not helped itself. In the late 1980s, many companies in the US raised prices in a manner that some senior executives now admit was scandalous. During six years in the late 1980s and early 1990s the price of some drugs increased by more than 100 per cent, while the consumer price index rose only 26.2 per cent. Subsequent arguments put forward by the industry about the cost-effectiveness of using drugs were swept aside.

Attacks on medicine bills have hit every significant pharmaceuticals market over the past 24 months. Last year, the German market collapsed by 9 per cent after healthcare reforms. The US market also decelerated to only 5 per cent growth, compared with double-digit growth in the late 1990s. This year it has been the turn of the Japanese, French and Italian markets to collapse, all registering static growth or falls. The UK, Spanish, Dutch and Belgian markets have also recorded reduced growth rates.

The world pharmaceuticals market, which during the late 1980s was growing at between 17 per cent and 20 per cent – including US price rises – slowed to only 4 per cent last year, according to IMS International, the London-based market research company. It is growing no faster this year. Brokers Lehman Brothers estimate the world market will grow at no more than 5 per cent for the rest of the decade.

> **Except in Japan, drugs seldom consume a significant proportion of healthcare spending. In the UK and US, spending on medicines represents 10 per cent and 7 per cent of all healthcare spending**

The impact of this deceleration in growth on the pharmaceuticals industry has been marked. Faced with falling volumes, the inability to raise prices and, in the US, price competition, individual companies are suffering. Brokers Goldman Sachs estimate Glaxo's sales growth will slow from 20 per cent last year to 5.4 per cent next year and only 3 per cent in 1997.

That is one of the industry's success stories. The sales of Marion Merrell Dow are, in contrast, in free fall. Down 16 per cent last year, the brokers believe they will fall 12 per cent this year, 8 per cent next year and a further 4 per cent in 1996. The drugs industry's reaction has been to rationalise and consolidate. Job losses, particularly in the US, have already begun. More are in prospect. Lehman Brothers reckon up to 200,000 jobs could disappear worldwide before the end of the decade.

Cost-cutting is already affecting spending on research and development, hitherto viewed as the industry's life-blood. Last year, five of the world's top 45 drugs groups actually cut spending on research and development (R&D). Among the US's largest 12 companies, 11 moderated the growth of R&D spending in 1993. Pfizer was the only exception. In the UK, the speed of deceleration has been spectacular. Glaxo increased its spending by 25 per cent two years ago, 24 per cent last year, 16 per cent this year and expects to increase by less than 5 per cent in 1995.

The deceleration in R&D spending may not be a bad thing. According to the UK-based Centre for Medicines Research, R&D spending increased from $5.5bn in 1981 to $30bn last year. Lehman Brothers, which estimates R&D spending was $28bn last year, reckons that if companies want a return on R&D investment of 10 per cent, and the market grows only 5 per cent a year, then the industry can support R&D investment of only $11.8bn – an overspend of more than $16bn.

In spite of this overspend, some groups clearly do not invest enough to sustain a regular flow of innovative medicines. Developing copy-cat drugs, known as "me-too" drugs, is no longer adequate for survival. Healthcare payers will no longer fork out premiums for only slight medical improvements. In addition, most drugs groups do not have the capability to develop medicines on an international basis, in the world's three largest markets: the US, Japan, and Europe. Unless companies have such a capability they will not adequately recoup the cost of their R&D investment.

Some drugs companies have attempted to boost their chances of developing innovative drugs by forging links with biotechnology companies. Many of the most exciting ideas in medicines are emanating from this source.

The failure to develop innovative drugs is causing a rationalisation of the industry's structure. Syntex, the US group which failed to find replacement products for its top-selling medicine after its US patents expired, was forced to sell to Roche of Switzerland. American Home Products slipped from being the world's biggest drugs company in the 1970s to number seven because it failed to develop enough good quality drugs. Last month, it bought American Cyanamid for $9.7bn.

Other companies are diversifying. Some, such as SmithKline Beecham, have strengthened their non-prescription business because the over-the-counter medicine market is growing faster than the prescription business, and because although margins are lower, the revenue streams are more predictable.

The drugs industry remains fragmented. Merck, the world's largest group, controls just 5 per cent of the global market. In 1993, the top 10 companies had a combined market share of only 29 per cent. The top 20 controlled just 50 per cent. It is clear the industry must consolidate even more.

Defence: **Bernard Gray** looks at the global squeeze on military budgets

The harsh effects of peace

While it lasted the cold war was certainly a boon for the world's arms makers. By the mid-1980s, some 85 per cent of all arms purchases were made by members of Nato or the Warsaw Pact. Small wonder then that the ending of the biggest armed confrontation in history has had a dramatic impact on the arms industry world-wide.

Since the fall of the Berlin wall the pressure for a "peace dividend" reduction in arms spending, combined with economic hardship in the west and the former Soviet Union have put a heavy squeeze on industrialised countries' defence budgets. At the same time the world recession has also put pressure on third world spending, the Gulf War spent much of the funds that were available to middle eastern states and low oil prices since then have put a cap on that normally buoyant market. Times are tough for the world's arms manufacturers.

Most have responded to the cuts, but some have moved faster than others. In the US weapons procurement, the part of the military budget which most affects arms manufacturers, has fallen by almost two-thirds in real terms in the last decade, and companies have moved quickly to meet the challenge. Workforces have been cut heavily – employment in the US defence industry has fallen from 1.35m in 1989 to 800,000 five years later. Manufacturers have also rationalised their chains of suppliers and adopted many lean manufacturing techniques now that they can no longer rely on long production runs to offset the fearful one-off costs of weapons development.

More recently, US companies have merged or sold operations to cut overheads. Large companies which were only peripherally involved in defence, such as Ford, IBM and General Electric, have sold their defence arms to defence specialists such as Martin Marietta and Loral. General Dynamics, once one of the largest defence companies, has sold much of its business to competitors who can consolidate the industry and returned much of the money to shareholders.

Now the industry is moving into what Norman Augustine, chief executive of Martin Marietta, calls the fourth and ultimate phase, where large and dissimilar defence companies merge to reduce central costs. Earlier this year, Northrop took over Grumman, and at the end of August the largest deal so far was struck when Martin Marietta and Lockheed announced plans to merge.

This is not "vertical integration" in the conventional sense, where the manufacturers of components merge with those who assemble them to create giants which run all the way from raw materials to finished products. Neither Northrop nor Grumman makes many components for the other, and while Martin does make electronics systems, comparatively few find their way into Lockheed aircraft.

Rather, this latest round of mergers cuts corporate overheads such as head office costs and duplicated research and development, while at the same time spreading risk over a larger number of weapons systems. This risk spreading means that if one large weapons system is cancelled in the US, it is not life-threatening for the company. For example, the deputy defence secretary, John Deutch, recently queried the need for the 12 most expensive US programmes. Martin Marietta is heavily involved in developing one programme, the Comanche scout helicopter, while Lockheed is involved in another even larger project, the $71bn F-22 stealth fighter. Delay or cancellation of either programme would be serious for each company separately but much easier for the combined group to weather.

As well as consolidating rapidly in their own free market, US companies are also being much more aggressive about seeking export opportunities, and a more relaxed Congressional attitude to overseas arms sales is helping the cause. Yet even here the market is becoming increasingly competitive as third world and European defence budgets fall. Historically, most arms buyers have been interested in the performance of a weapon and buy from their political allies or develop home-grown solutions. Now the pressure to get value for money means many European countries are being forced to consider cheaper off-the-shelf US weapons, to the detriment of their indigenous arms makers, and third world buyers are running beauty parades where western arms makers have to compete on price.

This gives the US manufacturers an advantage. While their arms have often been more expensive, both because they were more sophisticated and because the US has been less concerned about price, now the consolidation of companies and the introduction of lean manufacturing techniques is closing the gap. European manufacturers know they must respond, but are hampered by the unwieldly structure of their market.

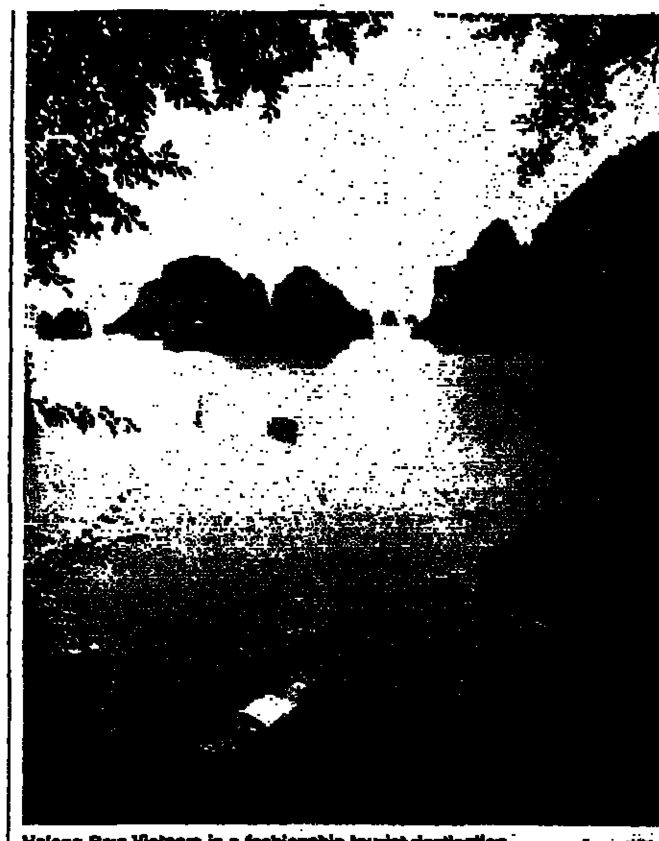
Natural suspicions between the ancient nation states of Europe makes them reluctant to rely on one another for weapons supplies. Besides, several of the large continental companies, such as Aérospatiale of France, are still state-owned, making mergers difficult. Because cross-border consolidation is hard many large European projects have been managed as a kind of half-way house where there is joint development of the weapon, for example in the Eurofighter 2000 between Britain, Germany, Italy and Spain.

While such methods save some money, much is wasted on duplication of effort and poor co-ordination between the partners. Equally, work in development and production is parcelled out on the basis of national commitments to a project rather than on the basis of the most competitive bids. As a result, the cost base of the European arms industry is higher than it need be, and Europe gets a less effective set of weapons at a higher price than it would get if the industry were consolidated.

The pressures that this generates were obvious at the Farnborough air show held at the beginning of September. Serge Dassault, head of the French Dassault fighter maker, criticised those European governments' which chose to buy US products when an acceptable European alternative was available. There was much muttering behind the scenes about how, if at all, Europe needed to respond to the US challenge. Some apparently thought that provided Europe bought domestically it need take no action. Others, such as Noel Forgeard of Matra Defence, argued that a response was necessary.

There are some signs of movement and Matra is one of the companies leading the charge. It has been in negotiations for 18 months to merge its missile business with British Aerospace Dynamics. It has already formed a joint venture with GEC's space subsidiary to create Matra-Marconi space and this recently bought BAe's space business. BAe is also at an early stage of talks about merging its Royal Ordnance subsidiary with munitions-maker Giat of France. Aérospatiale and Deutsche Aerospace are also discussing pooling their missiles interests.

Yet the progress is painfully slow, and neither Europe's arms makers, nor the politicians they supply, have a clear vision of how to mould their ambitions to the size and shape of industry they can afford.



Halong Bay: Vietnam is a fashionable tourist destination

Tourism: developing countries are cottoning on, says **Richard Gordon**

A powerhouse of revenue

At a recent tourism conference, held on a Thames river boat in London, Stephen Dorrell, the UK heritage secretary, told a group of tourism leaders that Britain needs to regain its declining share of the growing global tourism market. At that moment, a London red bus, emblazoned with a sign inviting Londoners to "Visit Korea in 1994", thundered overhead on Vauxhall Bridge.

The problem for Britain, and other traditional tourist destinations, is that the rest of the world has cottoned on to tourism. As the biggest growth industry, employer and source of revenue around the world, many developing countries have realised a quicker way to buy into first world affluence is by boosting their tourism potential rather then by selling tractors, bananas and rice.

Global tourism, according to the World Travel & Tourism Council, will double in size between 1990 and 2005. The market has been growing by 5 per cent a year in real terms since 1970. In 1993, the global tourism industry generated US$3,400bn in gross output, produced 10.1 per cent of GDP, and accounted for 10.5 per cent of all jobs.

> If just 2 per cent of China's population travelled abroad, they would inundate global tourist centres

The Council says governments cannot afford to ignore the industry's role as an economic powerhouse and should make it a strategic development priority.

The sheer size of the global industry has awakened many multinational companies to the possibilities of global brands and market dominance. As airlines form international networks and alliances, so, too, travel agents, hotel brands and car hire firms are banding together.

Several companies have already made the first moves towards serving the global tourism marketplace. The US travel agent Carlson, together with its European counterpart Wagonlit, is now the world's largest travel agent, with 4,000 units. Carlson also wants to be the world's largest hotel brand using its Radisson name. American Express is about to buy a large chunk of Thomas Cook's travel agency business in North America, the largest tourism market

The only areas not targeted by the global brands are the Middle East and Asia, where international arrivals in East Asia and the Pacific grew four times faster than the world average in 1993, reaching a record of 69m visitors. While arrivals were up by 12.6 per cent, revenue grew by 15.2 per cent to US$52.6bn. The World Tourism Organisation forecasts 101m arrivals in East Asia and the Pacific by 2000, and 190m by 2010.

However, this growth may be constrained by a shortage of human resources, the health and safety of tourists, environmental concerns, under-developed infrastructure and local residents' unease over the number of tourists.

But global tourism growth makes it clear why the UK annual tourism revenue growth of 5.7 per cent has caused a great deal of hand wringing within certain UK tourism industry circles.

Robert Peel, chairman and chief executive of UK hotel company Mount Charlotte Investments, says the world tourism market is all about value for money.

"There is a distinct relationship between prices and volume in world tourism. To get more tourists to the UK we have to make it worth their while to come here. The foreign exchange rate is a big factor in the equation. The UK is now 20 per cent better value for foreign tourists than two years ago."

But the UK is facing tough competition in the international marketplace. For example, Mexico, Australia and the Caribbean island of Aruba each spend more on tourism promotion in the US than the UK does. The biggest expense of any tourism destination is advertising and promotion. In 1993, national governments spent US$1.4bn selling themselves to the tourists.

Apart from advertising, other factors such as investment in tourism infrastructure, new airline routes and political stability influence the international tourists' holiday decision.

One of the most important issues impacting the Middle East is the present peace negotiations between Israel, the PLO, Jordan and Syria. The lack of peace in the region has been a principal reason for the limited number of tourist arrivals. As a whole, the Middle East in its best year of 1992 attracted only 2 per cent of the world's tourist arrivals or 9m visitors, compared to Greece which also attracted 9m.

Israel stands to benefit the most in terms of tourism from the recent peace process. Tourist arrivals in Israel reached a record level of 1.65m last year. Lasting peace in the region would create a vast influx of business and leisure tourists in Israel. Jordan, Lebanon, and Syria could also expect to see a sizeable increase in tourism.

Vietnam is the latest fashionable destination for tourists. There has been huge growth in tourism to Vietnam, but the figures are relatively small. Most visitors are business people as tourist visas are hard to obtain.

Foreign investment in Vietnam in the first quarter of this year jumped by 58 per cent compared to the same period last year. Between 1988 and 1990, most projects involving foreign money were in the hotel and oil sectors. The total amount of foreign investment in 1994 is expected to reach US$3.5bn, of which 70 per cent is in joint ventures.

The emergence and acceptability of Vietnam was confirmed recently when British Airways announced that it is negotiating to operate two flights per week from London to Ho Chi Minh City.

Robert Burns, chairman of the World Travel & Tourism Council, believes Shanghai will emerge in 10 years as the most important Asian city. A new airport, which could handle 150 landings an hour, is being built. Hotels in Shanghai are operating at near capacity and room rates are rocketing.

As Mr Burns pointed out, Japan now has a policy, the result of a balance of trade problem, that 20 per cent of its population should travel abroad by 2010. If China ever had just two 2 per cent of its population travelling overseas, the rest of the world would be inundated with Chinese tourists.

TRADE AND THE WORLD ECONOMY

Trade: **Guy de Jonquières** on the Morocco agreement

A test of resolve

When almost 120 governments signed the Uruguay Round agreement in Marrakesh, Morocco, in April, they committed themselves to the most sweeping world trade liberalisation in history. Now, the strength of their good intentions is to be put to the test.

Their first task is to ratify the round in time to implement it on schedule early next year, and simultaneously to establish the new World Trade Organisation, the grander successor to the General Agreement on Tariffs and Trade.

The biggest doubts about the timetable have long centred on the US Congress. After months of wrangling and partisan strife ahead of November's congressional elections, prospects for swift ratification have recently brightened.

President Clinton has, however, *been forced to pay a* heavy price by dropping his simultaneous request for "fast track" authority for new trade agreements. Without such authority, the administration will find it much harder to negotiate planned free-trade deals with other countries, notably in Latin America.

There are also uncertainties about the fate of the Uruguay Round in the European Union, *where ratification has become* entangled in a jurisidictional dispute between the Council of Ministers and the Brussels Commission, and in Japan, where continuing political upheavals have disrupted the parliamentary calendar.

These difficulties have not, *however, deterred* Gatt members from pressing ahead with plans to set up the WTO in January and to select its first leader.

The WTO will enjoy a number of advantages over the Gatt, which has operated on a "provisional" basis since it was formed in 1947. They include a formal legal structure, stronger mechanisms for settling international trade disputes and a much *wider remit, spanning* sectors such as agriculture, services and intellectual property rights.

The WTO is intended to develop into a permanent negotiating *forum*, which will replace omnibus trade rounds, and to play a prominent role alongside the World Bank and the International Monetary Fund in fostering global economic co-ordination.

But realising these ambitions will place heavy demands on the cohesion and sense of purpose of the WTO and its members, at a time when rapidly accelerating changes in the world economy are creating many new tensions.

The new WTO head is expected to play a crucial role in providing the direction and leadership needed to keep the multilateral trade system moving forward. Among the challenges ahead are:

- Holding governments to their Uruguay Round pledges to liberalise long-protected and politically sensitive sectors such as agriculture and textiles.
- Formulating new rules for trade in services and foreign investment, both largely uncharted policy areas which involve delicate issues of sovereignty.
- Coping with pressures, notably from the US, to involve the WTO in politically contentious matters such as the links between trade, labour standards and environmental policy.
- *Admitting about 20 further* countries, including China and members of the former Soviet Union.

These tasks have to be tackled against a background of confusing – and sometimes *conflicting* – international economic trends.

The past decade has witnessed dramatic advances in global interdependence, as national borders have crumbled under the impact of past trade liberalisation, enhanced capital mobility and technological advances, particularly in communications.

These trends have helped to stimulate rapid economic and exports growth in much of the developing world, notably in Asia, steadily shifting the centre of gravity of the world economy and international trade away from the industrialised powers.

At the same time, however, intensified global competition threatens to provoke negative reactions within countries, as governments come under pressure to shelter vulnerable domestic constituencies from painful adjustment to forces outside their control.

So far, the temptation to respond by erecting higher trade barriers across the board has been resisted. In the US, it has been deflected into aggressively unilateralist trade initiatives – *notably towards Japan* – and more activist industrial and export promotion policies.

In the EU, the worst fears of a "Fortress Europe" have not *materialised. But EU attitudes* remain delicately balanced between the protectionist inclinations of southern members, led by France, and the traditionally more *liberal northern* countries. Furthermore, the EU is seen by many trading partners as suffering from a myopic preoccupation with internal problems, *which has* inhibited it from addressing decisively new global economic opportunities and challenges.

Cutting *across these* trends, in both developing and industrialised countries, is a proliferation of bilateral and sometimes overlapping regional economic arrangements, exemplified by the North American Free Trade Area, the Asia-Pacific Economic Co-operation forum, and the *Latin American* Mercosur grouping.

These groupings are impelled by a variety of motives. As well as improving access *to* export markets, these include the desire to "lock in" domestic economic reforms, efforts to forge regional solidarity, the quest for increased influence over international economic policy and the simple fear of being left out.

The stampede towards regional link-ups seems curiously at odds with the accelerating pace of global economic integration and the strengthened multilateral disciplines in the Uruguay Round.

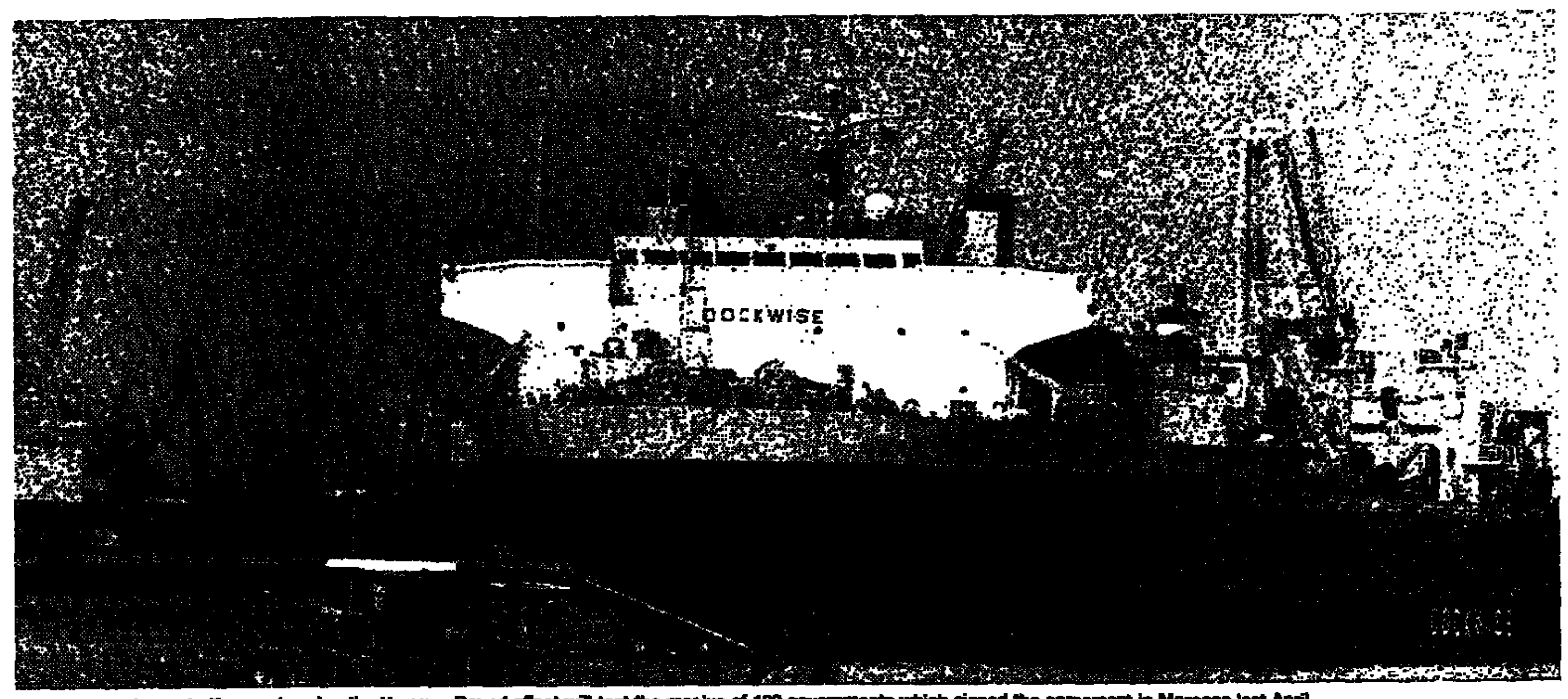
However, advocates of regional blocs often argue that, rather than *fragmenting the* world trading system they contribute to its long-term development by promoting liberalisation between their members.

So far, regional trading arrangements do not appear to have led to higher barriers against non-members. But the evidence is less clear on how *far they have stimulated* increased trade flows or merely diverted existing ones.

A possibly greater threat could be posed to the integrity of the multilateral system if members of bigger regional blocs use their collective weight to try to pressure other countries into accepting their *own rules and regulations* in return for improved market access.

That risk, however, is only likely to materialise if negotia*tions within regional blocs* prove a more effective way of achieving consensus on liberalisation than is available through the WTO.

Nonetheless, persuading governments to treat regional trade deals as building blocks towards - rather than alternatives to - truly global liberalisation is likely to pose one of the stiffest tests of the WTO's ability to establish its authority.



Rotterdam, gateway to Europe: keeping the Uruguay Round afloat will test the resolve of 120 governments which signed the agreement in Morocco last April



The three offical candidates for *leadership* of the new World Trade Organisation, the grander and *more powerful* body which is due to succeed the General *Agreement on* Tariffs and Trade at the *beginning of next year*.

They are (from left to right): Carlos Salinas, president of Mexico; Renato Ruggiero, a former Italian trade minister; and *Kim Chul-su, South* Korea's trade minister. A decision is expected in late autumn on who should fill the post.

However, establishment of the WTO – and the starting date for implementing the Uruguay Round – may have to be delayed if leading economic powers, including the US, the *EU and Japan, have not* ratified the agreement by the end of this year.

Unlike the Gatt, the WTO will be a formal legal entity, with stronger powers to settle trade disputes and a wider remit, covering areas such as agriculture, textiles and trade in services. However, it also faces many challenges.

As well as holding countries to their Uruguay Round commitments, it must seek to draft global rules in many new areas, at a time when accelerating changes and tensions in the structure of the global economy are testing consensus between Gatt members.

World Economy and Finance: 18

Corruption: **Michael Holman** on a growing global phenomenon

A cancer in business

Pssst... Want to know what it costs to get the government minister on your side? Or how to broach the delicate subject of whether the president should be cut in on the deal?

Then buy The Good Business Guide to Bribery*, an insider's guide to what has been called a cancer which poses a bigger threat to development than Aids.

The cancer is corruption: once seen as a problem associated with tin-pot dictatorships in far-off countries, it is now increasingly acknowledged to be a growing global phenomenon, which requires a co-ordinated international response.

Leading the way is Transparency International (TI), the Berlin-based "coalition against corruption in international business" and publisher of the Guide, which argues that at the end of the day, bribery is bad for business.

Corruption, the TI publication warns, is not a problem confined to the third world. It is also undermining the fledging democracies of eastern Europe, threatens clean government in Europe itself, and is ultimately bad for business.

Its symptoms range from a majestic cathedral in Cote d'Ivoire, built by a former president who treated state resources as his own, to classrooms without books in Nigeria, where the education budget has suffered and businessmen and politicians have benefited from inflated contracts and diverted oil earnings.

When TI was launched in May last year, it prompted a sceptical response, summed up by a cartoonist who portrayed the organisation as a contemporary Don Quixote, tilting at windmills.

But behind Transparency International was a group of hard-headed veterans of aid, commerce and development, eminent in their own fields, and with experience spanning the developing world, and with no illusions about the enormity of their task.

Corruption is undermining the fledging democracies of eastern Europe

As Peter Eigen, the chairman of TI and a former senior official with the World Bank, put it: "We recognise the realities of international commerce and competition; our approach must be evolutionary."

But at the same time, he knew that a growing number of businessmen were increasingly concerned about the spread of corruption and its impact on business.

Said one executive of a leading international company, with experience in Africa, Asia and the Caribbean: "Nobody in the business world pretends any more that corruption is not one of the most important and damaging factors in third world development."

Without a combination of tougher laws, tighter monitoring, and technical assistance where necessary, the malaise will spread, Mr Eigen and his colleagues argued at the launch.

These sentiments struck a responsive chord, as Transparency International began to promote ethical business conduct. It lobbied governments and leading international companies for support, and above all co-ordinated the response from leading politicians and concerned citizens around the world to the call for better business practices and cleaner administrations, and a crack down on bribery.

"Initially there will be only a few countries where business and government can jointly subscribe to the concept, a few 'islands of integrity'," says Mr Eigen.

The campaign initially focused on five or six governments in developing countries and central and eastern Europe which were prepared to participate in the programme. Drawing up a code of practice, and providing the expertise with which to monitor it, and strengthening the institutions that have to enforce it, takes time.

But the day is not far off when these governments will restrict tendering for state contracts to corporations which have themselves signed an anti-bribery pledge as part of the integrity in business programme.

The trailblazer has been Ecuador, where tenders for a $600m government-funded pipeline contract will be limited to companies who have signed a code of business conduct.

"We expect these leading countries will then create a momentum by their example," says Mr Eigen.

TI's role includes providing a range of services, such as suggesting ways in which rules and systems for international procurement bidding can be improved, assisting governments to establish anti-corruption investigative agencies, establishing a clearing house for information on corruption, and examining serious cases of briery.

Anti-corruption drives are not new, TI officials acknowledge. But past efforts have failed in part, they say, because it was not possible to co-ordinate a global coalition involving all the main players, as TI now does.

This has been made possible, says TI, by the new world order that has emerged over the past few years.

The end of the cold war has meant that governments which used to shelter under the umbrella of Moscow or Washington, now face exposure, knowing that their erstwhile patrons will no longer turn a blind eye to economic and political abuses because of the need for access to a strategic airport, dockyard or mineral supply.

The wave of democratisation that followed the super power rapprochement, from central and eastern Europe to Africa and Latin America, has seen the emergence of representative governments anxious to make a fresh start.

At the same time, the industrialised countries have been shaken out of their complacency about corruption, as scandals in Italy, Japan and Britain reveal that they, too, are vulnerable.

Today, much of the drive for an internationally binding code of conduct comes from the regions that have suffered most, instigated by a new breed of politicians, lawyers, and businessmen in south America, eastern Europe and Africa, who know from their own bitter experience just what corruption can do.

Eighteen months after its launch, TI draws on the support of chapters that have sprung up around the world – including Bangladesh, Benin, Bolivia, Australia, Costa Rica, Ecuador, Germany, Hungary, Mali, Kenya, New Zealand, the Philipines, the UK, and the US.

Industrialised countries have been shaken by scandals in Italy, Japan and the UK

Word spread through TI's quarterly newsletter, which monitors corruption around the world, and tells subscribers what is being done to combat it.

In Russia, for example, where TI is in the process of establishing a chapter, it has been asked by parliament and President Yeltsin's office to make submissions on the proposed new anti-corruption laws.

Leaders brought together by the Organisation of American States have put anti-corruption measures high on their agenda for their December summit in Miami, noting that "corrupt practices are capable of frustrating the process of overall development".

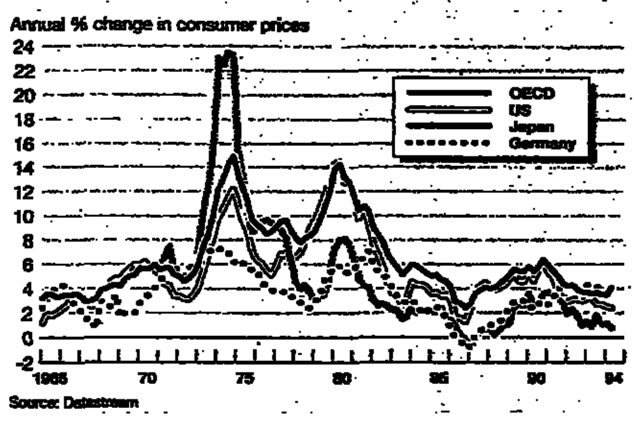
Perhaps the most important breakthrough came barely a year after TI's launch. In Paris last May the Organisation for Economic Co-operation and Development (OECD), made the opening move in what could become an internationally co-ordinated programme to combat corruption.

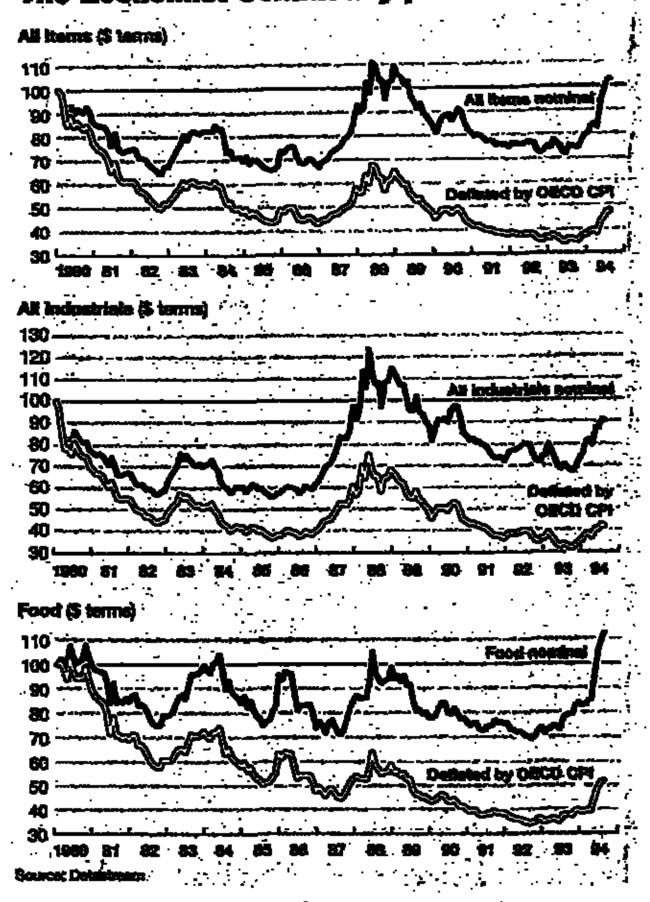
The influential 25-country association recommended "that members take effective measures to deter, prevent and combat the bribery of foreign public officials in connection with international business transactions". "The OECD move is something we have worked for assiduously", said Mr Eigen. "Ideally we wanted stronger action than non-binding recommendation."

** The Good Business Guide to Bribery, by George Moody-Stuart, DM40, obtainable from Transparency International, Berlin, Tel 49-30-261 6015 Fax 49-30-262 8583*

Inflation: is it a thing of the past? asks **Martin Wolf**

Good reasons for optimism





One good indicator that inflation may not be as dead as people believe is that so many suppose it is. Apart from this niggling doubt, the picture looks rather good. It should remain attractive for some time. Yet things could go wrong. The main risks lie in the domestic policies of the industrial countries, rather than in outside events, such as rises in commodity prices.

The latest forecast from the Organisation for Economic Co-operation and Development was that, excluding Turkey, the rise in the deflator for GDP (the broadest measure of inflation) would be only 2.1 per cent this year, following 2.6 per cent in 1993 and 3.2 per cent in 1992. Not since the 1960s has the OECD-wide GDP deflator risen by less than 3 per cent in any year.

Alan Greenspan, chairman of the Federal Reserve, has argued that "price stability means that expected changes in the average price level are small enough and gradual enough that they do not materially enter business and household decisions". Given the difficulty of measuring quality improvements, this level is often taken to be 0-2 per cent.

The advanced industrial countries have virtually achieved that goal. In fact, the OECD forecasts that in 1994, no fewer than 18 members of the OECD will have inflation rates of less than 3 per cent. This can be contrasted even with 1987, the year when inflation was lowest in 1980s. Then the increase in the OECD-wide GDP deflator (excluding Turkey) was 3.2 per cent, while only eight countries achieved inflation below 3 per cent.

The return to fairly low inflation after a quarter of a century is a considerable feat. Not the least of its benefits is that the costs of lowering inflation need not be suffered once again. This should help ensure that the next economic expansion is a long one.

There are also good reasons for believing that inflation will remain low. One of these is the low rate of monetary growth in virtually all OECD countries, the principal exception being Germany.

Scarred by bad loans in the 1980s, banks seem unprepared to finance any substantial expansion of credit. Those scars were the final injury inflicted by the 1970s, when investors had made fortunes from inflation.

It was probably necessary, therefore, to experience a cycle in which inflation did not bail out borrowers from their mistakes. Maybe the reason Germany has had higher monetary growth over the past 12 months than any other member of the group of seven leading industrial countries is that it did not experience a large-scale inflationary redistribution of income during the 1970s.

Yet another reason for optimism, many argue, is the emergence of low-cost competition, particularly in east Asia. This development is, in fact, similar in its effects to an increase in the rate of domestic productivity growth. Inflation could still accelerate if domestic nominal costs, particularly wages, were to rise and the exchange rate were to depreciate *pari passu*. Domestic monetary conditions, not the relative prices of particular commodities will determine those trends.

Perhaps the most fundamental reasons for optimism are intellectual and political. People no longer believe it is possible to blow economies up like balloons merely by judicious use of the printing-press pump. Equally, the political weight of those opposed to inflation – notably actual and imminent pensioners – is rising, with their numbers. With exchange controls lifted, it is also easier for investors to protect themselves against inflation and punish those who threaten them with its resurgence.

For all that, inflation can hardly be regarded as dead. One reason is that there are plenty of borrowers, including households, who would love to have some inflationary relief from the debts they accumulated in the 1980s. Moreover, among those borrowers are governments, all of whom are under significant fiscal pressure and some of whom – Sweden, Italy and Belgium being the salient examples – seem to be in close to a critical position. When debtors are able to determine whether or not their debts are inflated away, it is sensible to worry about what they will choose to do.

Inflations are always symptoms of distributional struggles. Such struggles tend to be fiercest when income falls, which is why inflation peaks have coincided with surges in prices of imported primary commodities, particularly oil. The resulting deterioration in the external terms of trade forces a pass-the-parcel process of redistributing the losses. It is natural, therefore, to ask whether resurgent commodity prices might yet derail the stately progress of non-inflationary growth.

Commodity prices have, in fact, recovered quite strongly. In the year to September 1994, the Economist price index for all commodities has risen 37 per cent, for food commodities it has risen 43 per cent and for industrial raw materials it has risen 31 per cent.

These seem significant increases, but they must be kept in context. In nominal terms the Economist all-items index of commodity prices is still a little below where it was in 1988. In real terms – deflated in this case by the consumer price index of the OECD – the value of the all items Economist index in June 1994 was 35 per cent below its level of six years before. Over the same period, the corresponding declines were almost a fifth for the real price of foodstuffs and almost a half for industrial raw materials.

In the early 1990s, real commodity prices fell to their lowest level of the 20th century. Even adjusted for the quality improvement in manufactures, the real value of commodities has halved since the mid-1970s and is now lower than at any time since the 1930s. The question is whether the still-depressed prices of today are due for a sustained turn-around. This matters because the relative decline in commodity prices, albeit disastrous for many commodity-exporting developing countries, greatly assisted the disinflation in OECD countries during the 1980s and 1990s.

In its 1994 Global Economic Prospects, the World Bank forecast an improvement in the terms of trade of exporters of fuel, but only at an annual rate of 1.6 per cent between 1994 and 2000 and of a mere 0.4 per cent for exporters of non-fuel primary products. This is not much of an improvement, although it certainly does contrast with deteriorations of 2.2 per cent a year between 1987 and 1993 for exporters of fuel and of 1.8 per cent a year for exporters of non-fuel primary products.

Oil: distortions have masked robust growth in demand, says **Robert Corzine**

Price swings raise doubts

The influential role of oil prices in the world economy was vividly illustrated last February, when the price of the benchmark Brent Blend fell to a five-year low of about $13 a barrel.

In the US, the world's largest energy market, low crude oil prices were quickly passed on to industry and consumers in the form of lower petrol and diesel prices, thus helping to ensure that the rapid economic expansion steamed ahead without inflationary worries.

But the economic effect of oil prices falling to their lowest real level since 1973 was markedly different in many petroleum exporting countries. They were forced to make sharp cuts in public expenditure as export revenues plummeted.

At the same time some analysts predicted that oil prices could collapse to single digits, a prospect that prompted speculation about possible civil unrest in populous but poor members of the Organisation of Petroleum Exporting Countries, such as Nigeria and Iran.

Those price forecasts have since been proved wrong. Prices moved steadily upwards, to reach a high for the year so far of about $19.40 a barrel in early August, as the market reacted to fears that supplies from Nigeria would be cut due to a politically-motivated strike.

But even a four-month price rally was not enough to bring Opec revenues back to last year's levels. At the end of August the cumulative revenues of the organisation's members were still about $15bn, or 18 per cent lower than those recorded to the end of August 1993, according to the Petroleum Finance Company, a consultancy based in Washington D.C.

The collapse of the Nigerian strike in early September caused prices to fall back to their present level of $16-$17 a barrel. But volatility on the scale seen this year has left oil producers and consumers alike wondering about the direction of long-term price trends.

The conventional view is that both medium and long-term prices should gradually increase as demand strengthens in line with economic recovery in the main industrialised countries.

Although world oil demand fell by about 0.8 per cent in 1993, Peter Davies, British Petroleum's chief economist, says the figure was distorted by the unprecedented collapse of demand in the former Soviet Union, where consumption fell by about a fifth. Oil demand in the rest of the world grew by about 1.4 per cent, a "robust" rate according to Mr Davies.

Most forecasts suggest that demand outside the former Soviet Union will continue to rise. The Paris-based International Energy Agency says oil demand in the industrialised countries of the Organisation for Economic Co-operation and Development could increase to 45m barrels a day by 2010. That represents an 18 per cent increase over 1991, but an annual growth rate of just 0.8 per cent a year.

Oil demand in the rest of the world, however, is expected to grow on average by nearly 4 per cent a year. Growth will be especially buoyant in fast-growing Asian economies, such as China, which BP economists expect will overtake Russia some time this year as the world's second largest energy market.

Even a four-month price rally was not enough to bring Opec revenues back to last year's levels

China has also become a net oil importer. That is a significant development for future oil prices, given forecasts which show China importing more than 1m barrels a day by 2000.

The prospect of steady, strong demand for oil comes at a time of high capacity utilisation among leading producers. World oil consumption is running at about 65m barrels a day, but there is probably only about 2m-3m b/d of surplus capacity, mostly in the big Opec producers of Saudi Arabia, Kuwait and the United Arab Emirates.

The lack of surplus capacity is one of the main reasons why Opec's notoriously weak commitment to national production quotas has been maintained this year. It also explains why world markets drove oil prices to year-to-date highs in August when traders feared that strikes would stop 1.6m b/d of Nigerian exports from reaching international consumers.

Supply worries should help to underpin prices in the short term, as long as Opec maintains reasonably strong production discipline and there is no early return to the world markets of Iraqi crude oil, subject to a United Nations embargo.

Saudi Arabia, the largest exporter, is keen to see prices move closer to the $18-$22 a barrel level. That, Saudi officials say, would be a high enough price range to satisfy Opec's need for greater oil revenues, but low enough to avoid inflationary pressures in the industrialised world.

Such a range would also be in keeping with Saudi Arabia's long-term strategy to keep oil competitive against alternative fuels. Such stable pricing policies, however, are likely to draw opposition from more populous Opec price hawks, such as Iran.

But although the world's dependence on Opec will grow towards the end of the decade, there are a number of short-to-medium-term factors which could keep oil prices in a relatively steady price range.

The end of the cold war and a wave of privatisations in many developing countries have opened up an unprecedented number of opportunities for oil companies, with oil-producing countries increasingly competing for foreign investment and access to western technology.

Although many companies have experienced political problems in promising areas such as Russia and other republics of the former Soviet Union, a steady stream of new, large export-oriented fields in non-Opec countries is expected to be developed in coming years.

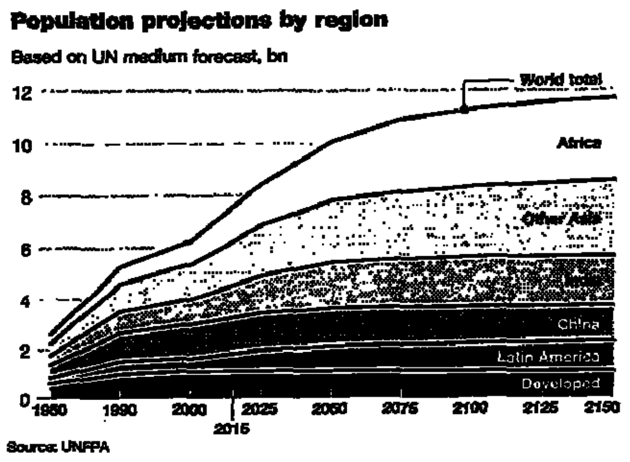
The surge in non-Opec production will eventually tail off. But oil companies are proving to be particularly adept at developing new technology to extend the productive life of existing reservoirs well beyond original estimates.

Some analysts believe such technological and market forces are strong enough to keep prices within a relatively low band of $15-$20 a barrel in real terms. But the growing importance of paper markets in setting prices means that price swings could still be sudden and wide.

Population: **Bronwen Maddox** analyses results of the Cairo conference

A host of future problems

Alarm and hope: those are governments' twin reactions to the latest batch of projections from the United Nations on how many people will be occupying the planet in the next century. One message behind the figures is that high population growth in developing countries remains a threat to their prosperity, and through migration, to that of developed countries as well. But other messages are that growing populations need not represent the apocalypse which has been predicted by many, and that there is much governments can do to slow down the increase.



Source: UNFPA

This month's UN conference on population and development in Cairo, the first to tackle the contentious subject for a decade, stirred up controversy on many fronts. The Vatican formally registered its reservations to nearly half the chapters in the final text, on the grounds that it condoned abortion as a form of contraception. The UN Population Fund (UNFPA), which organised the conference, denied that the text had that interpretation, but several Catholic countries in Latin America also lodged reservations to sections.

However, despite an informal alliance between the Vatican and Moslem governments in the run-up to Cairo, governments achieved a much greater degree of agreement at Cairo on responses to the threat of population growth than seemed possible at the previous UN conferences in 1984 or 1974. The final document set a target for annual spending on family planning of $17bn a year by 2000, from national programmes and international aid, which marks a threefold increase on present levels.

Most governments acknowledged at Cairo that it is in their own interest to take steps to help people limit the sizes of their families, given the formidable projections of the world's population. According to the UNFPA's annual report, published in August, the total is set to reach a sobering 10bn by the middle of the next century, up from 5.7bn at present.

The UNFPA's projection assumes that the average number of children born to each woman will continue to fall, as it has done for several decades; other assumptions, only slightly different, produce estimates of the total number of people in 2050 between 7.8bn and 12.5bn.

These increases will put increasing strains on natural resources of all kinds, both global resources, such as the atmosphere and seas, and regional. Water, in particular, may prove "an increasing cause of friction" between countries and regions, the UNFPA suggests.

The implications of these projections for the distribution of wealth between countries and continents are also considerable. The World Bank estimates, in a report released ahead of Cairo, that 61 per cent of the world's population will live in countries with per capita incomes of below $350 a year (in 1990 money values). That compares with 57 per cent in 1985. Over the same period, the proportion of people living in countries with per capita incomes over $19,590 will fall from 16 per cent to 11 per cent.

Moreover, the bank warns that by 2100, 10 out of 11 people will live in the developing world, compared to four out of five at present, and two out of three in 1950. Much of the increase will come in Africa: the present annual growth in the continent's population of 2.9 per cent a year is the highest in the world. That rate outstrips by some way the annual Asian and Latin American growth of less than 2 per cent, according to the UNFPA.

Within developing countries, people will drift to the cities in search of jobs, prompted by competition for land and water in rural areas. The World Bank estimates that in 2025, 57 per cent of the population in developing countries will live in cities, compared to less than half now.

Most governments acknowledged at Cairo that it is in their own interest to take steps to help people limit the sizes of their families

As a result of those pressures, developed countries should prepare to face growing pressures for immigration, the bank warns. As their populations are growing slowly, they should expect their share of the world's population to shrink. While North America's population is edging up at 1 per cent a year, the rate is only 0.5 per cent a year in the former Soviet Union and 0.3 per cent a year in western Europe.

Meanwhile, their populations are ageing: the UNFPA expects the proportion of people aged 65 and over in industrialised countries to rise from the present 12.7 per cent to 18.4 per cent by 2025.

To set against those threats, UN figures provide some ammunition to counter fears of a global food shortage, of the kind voiced by the "Club of Rome" school of forecasters some 20 years ago. The UNFPA observes that "during the past 10 years, the world's food production has increased by 24 per cent, outpacing the rate of population growth".

But the improvement in food production has been unevenly distributed, the UNFPA also points out. In Africa, food production fell by 5 per cent while population rose by a third. While the UN maintains that food supplies "should be sufficient to meet all needs for the foreseeable future", the poorer regions and countries will face severe shortages.

Reason to worry, then; but the past two decades also provide grounds for hope that governments can help bring down population growth rates. Most developing countries – even, in the past few years, those in sub-Saharan Africa – have seen fertility rates fall.

According to UNFPA officials, a decade ago many African countries saw growing populations as a useful tool to increase prosperity. Now, seeing the growth jeopardise the fruits of investment in health, education, infrastructure and agriculture, they are showing a greater readiness to promote family planning.

The UNFPA says that governments now appreciate that making contraception more widely available helps bring down fertility rates, even if economic development has been slow. Demographers' new message is that if people are given the means to control the number of children they have, even in the poorest countries they frequently choose to have fewer.

The past decade has shown governments the threat which uncurbed population growth can pose to prosperity. But it has also helped generate confidence among governments that growth rates can be tackled, and broad agreement on ways to do that.

Smoking zone: concentrations of carbon dioxide in the atmosphere have continued to grow

Environment: **Bronwen Maddox** assesses results after the Rio earth summit

Clean-up targets hard to hit

Governments have succeeded in solving few of the truly global environmental threats which face them, although some are getting better at solving national problems. But countries' records vary widely: the clean ones are tending to get cleaner, while the dirty ones get filthier.

The Rio Earth Summit two years ago stands as the world's most ambitious attempt to identify and address global environmental problems. While governments and lobby groups wrestled with almost every environmental issue imaginable – with the notable exception of population growth, as the UK's Prince Charles pointed out – two concerns above all provoked enough alarm to push delegates to agreement. The Rio climate change convention addresses the effect of pollution on the world's atmosphere; the biodiversity convention tackles threats to the worldwide diversity of species.

This year's annual report from the United Nations Environment Programme notes that the rate of increase of atmospheric concentrations of methane, a "greenhouse" gas, has been slowing, although concentrations of carbon dioxide in the atmosphere have continued to grow. But it also makes clear that emissions of carbon dioxide are rising less quickly than some once feared. The collapse of highly-polluting heavy industry in eastern Europe and the former Soviet Union, together with recession in western Europe and North America, has provided something of a "breathing space".

It seems unlikely that eastern European industry will return to its former levels of pollution, given that new plant now being installed is many times more energy efficient than the old. However, as recession lifts in western Europe and North America, those regions' emissions will continue to rise. That will make the question of their compliance with the Rio targets pressing once again.

It is too early to judge whether governments have changed their policies in response to the Rio agreements. But their responses to the climate change targets are in some disarray. The convention commits industrialised countries to drawing up plans for bringing emissions of "greenhouse" gases such as carbon dioxide back to 1990 levels in 2000. However, higher taxes on energy, the tool first seized upon by the US and the European Union, have proved politically unpopular, and measures to introduce them have stalled.

It is even harder to measure government's progress on biodiversity targets given that knowledge of the number and distribution of species of plants, animals, insects and fish is incomplete. Indeed, environmental campaigners use that ignorance as a justification for "precautionary" action; the rain forests, they argue, may hold hitherto undiscovered sources of medicines.

The records of countries vary widely: the clean ones are tending to get cleaner, while the dirty ones get filthier

But environmental lobby groups such as Worldwide Fund for Nature have been sceptical that governments' measures to preserve biodiversity will be vigorous. That stance is given weight by the two dozen disputes in the past year over fishing rights in international waters, where countries are not convinced that conservation is in their interest.

There are three reasons why the Rio conventions are proving hard to implement. First, the science is uncertain: it is hard to determine the extent of the environmental damage caused by atmospheric pollution or loss of species. Second, changing behaviour is proving expensive. Third, governments disagree over who should bear the financial burden of making those changes.

Developing countries argue that they are not to blame for the threat of climate change. Although their emissions of greenhouse gases are now rising fast, they argue that present levels of harmful gases in the atmosphere should be blamed on Europe, North America and Japan.

If progress on the Rio conventions were the only standard by which the world's ability to tackle environmental problems were judged, there would be cause for pessimism. However, other, more limited international pacts to curb pollution have had more success, where both scientific and distributional questions have proved easier to answer.

The 1987 Montreal Protocol, an international agreement to phase out substances which damage the ozone layer of the atmosphere, is one of the most successful attempts to address an environmental threat. The causes of the problem were more easily identified than those of global warming, and companies rapidly developed substitutes for most of the chemicals incriminated.

Although thinning of the ozone layer, which shields people and crops from the sun's harmful ultraviolet rays, is continuing, scientists predict that if the phase-out is completed, the layer will begin to repair itself by the middle of next century.

Where regional interest is clear, pacts have also been easier to draw up and implement than the Rio targets. European and North American countries have succeeded in drawing up progressively tighter curbs on emissions of sulphur dioxide, which are thought to cause acid rain.

As a result of measures to re-equip power stations, or to derive a higher proportion of power from gas or nuclear energy, sulphur dioxide emissions in industrialised countries have been falling sharply. Between 1980 and 1990 they fell by 10 per cent in the US, 29 per cent in Japan, 69 per cent in western Germany, 60 per cent in Sweden and 23 per cent in the UK, according to UNEP.

Such efforts have brought sharp improvements in many types of air pollution in industrialised countries, albeit with the important exception of traffic fumes. But European and North American countries are also spending considerable sums on tackling water pollution and the disposal of solid waste, particularly in its most hazardous forms.

The same picture is not true of many developing countries, where environmental concerns remain way down governments' priorities – and capabilities. For example, China's emissions of sulphur dioxide rose by 50 per cent during the 1980s, and India's by 53 per cent. Those trends are unlikely to change unless governments of developing countries are persuaded that cleaning up the environment is in their own interest. That can occur through public pressure, international regulation (and the payments from developed countries which may accompany it), or simply by acknowledgement of the costs to the country of losing environmental resources such as trees or clean air.

Until those changes occur, however, the gap in environmental standards between developed countries and developing ones which have embarked on industrialisation is likely to grow wider.

THE WORLD'S ECONOMIES: Europe

Lionel Barber discusses the future of the European Monetary Union

Sceptics forced to think again

What a difference a year makes. The collapse of the exchange rate mechanism, 12 months ago, looked like vindicating criticism of Europe's plans for a monetary union. But in the interim, the sceptics have been forced to think again.

The cause of the reassessment is twofold: an incipient recovery bolstered by a steady reduction in German interest rates; and the commitment of member states (notably France) to maintaining exchange rate stability rather than resorting to competitive devaluations to kick-start growth and reverse rising unemployment.

Suddenly, John Major's remark that talk of a monetary union had all the quaintness of a rain dance looks somewhat short-sighted. A shrewder judgment on the implosion of the ERM on August 2, 1993, would more likely echo General De Gaulle's comments on June 18, 1940: Europe has lost a battle not the war.

Relative calm in the European currency markets since August 1993 suggests that the new 15 per cent fluctuation bands are working. The "dirty float" has offered a respite from the speculators who revelled in testing the willingness of the central banks to defend the former narrow fluctuation bands of 6 per cent and 2.25 per cent respectively.

Hans Tietmeyer, Bundesbank president, leads a consensus among his central bank colleagues in favour of a system which no longer imposes an obligation on the strong to intervene to prop up weaker currencies. The accent now is on each member state taking the necessary corrective action – reducing budget deficits and keeping control of inflation – to bring economies into line.

This path to economic virtue holds good whether or not member states are serious about EMU. All the signs, however, suggest that they are. The creation of the European Monetary Institute is a signal of the political will to continue on the road to EMU. The caveat is that the Bundesbank's argument that currency stability is more important than rigid adherence to the Maastricht treaty's timetable for monetary union clearly holds sway.

> The European Monetary Institute is a signal of the political will to continue on the road to EMU

So what comes next? First, the EU's road map to a single currency by the end of the decade may need rethinking. Maastricht's concept of using the discipline of narrow fluctuation bands to move progressively to fixed exchange rates looks questionable.

Second, it is worth looking at the margin for manoeuvre offered within the treaty itself, notably the criteria laid down for membership of a future monetary union. These fall into three groups: for inflation and interest rates; for exchange rates; and for fiscal policy.

■ Consumer price inflation must be within 1½ points of the average of the best three members. Long-term interest rates must be within 2 per cent of the average bond yield in the three countries with the lowest inflation rate.

■ On exchange rates, member states must respect "normal" margins of fluctuation within the ERM for at least two years "without severe tensions".

■ On fiscal policy, the treaty offers two "reference values": 3 per cent for the ratio of the planned or actual government deficit to gross domestic product at market prices; and 60 per cent for the ratio of government debt to gross domestic product at market prices.

It has suited EMU sceptics to stress the near insuperable nature of the criteria, particularly those relating to public deficits. EMU supporters have also had a vested interest in promoting their importance. To do less would be to encourage backsliding and unnerve the Germans who have most to lose by surrendering the D-Mark.

Yet EMU may not be quite as elusive as was first imagined. The inflation target looks eminently manageable for the majority of EU members, and the interest rate criterion is by no means onerous. It is quite conceivable, too, that finance ministers could elect to call the wider ERM bands "normal" later this year.

The trickiest obstacle remains fiscal deficits. But here again the Maastricht treaty provides for a degree of political judgment.

Responsibility for applying the "excessive deficit" procedure lies with the European Commission which is required to identify "gross errors". Also, the ratio of public debt to GDP must decline "substantially and continually" and come close to the reference values.

On the other hand, member states have the chance to argue that their deficit is temporary or exceptional, and that they are moving toward the reference values. Thus, on government debt, the reference value is 60 per cent "unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace".

This year, the Commission has already argued that Ireland does not fail the fiscal test, despite its high debt, because of its low deficit. The move offered an important signal about future flexibility, assuming the Council of Ministers agrees (it must act by a qualified majority on the recommendation of the Commission).

> It seems inevitable that the future debate on EMU will increasingly be coloured by political arguments

It is tempting to conclude that EMU is eminently feasible, with the outcome depending on the political will of those member states with the strongest commitment to European integration. The refusal of the Belgians and the French to break ranks with their partners on interest rates suggests that the governing elite's support for EMU remains undiminished. Together with Germany, the Netherlands and Luxembourg, Belgium and France look very much like an informal hard currency club.

Yet it would be unwise to ignore the statements from leading Germans, notably Mr Tietmeyer, that EMU needs to be balanced by a greater degree of political union in Europe. The precise nature of such a political union remains unclear, but the thrust of the argument holds: Germany remains hesitant about surrendering monetary sovereignty unless its partners are prepared to pool sovereignty in other areas.

EMU supporters argue that the Germans have entered legal obligations, so it is too late to draw back now. But it seems inevitable that the future debate on EMU will increasingly be coloured by political arguments, with German calls for greater powers to the European parliament, deeper co-operation on foreign and defence policy, and a more forthcoming approach to eastern European neighbours in joining the EU high on the agenda. The final argument on which countries are deemed eligible to join EMU is also expected to be controversial.

The lesson of the past 12 months is that the EU retains an enviable ability to improvise in the face of obstacles or setbacks.

Profile: JACQUES DE LAROSIERE

The EBRD is back on an even keel

Establishing liberal capitalism in eastern Europe and the former Soviet Union has turned out to be more difficult than many forecast. The European Bank for Reconstruction and Development was set up in 1991 as a central part of western governments' efforts to assist in that task.

Jacques de Larosière took over at the helm of the EBRD slightly less than a year ago at a difficult time for the bank and for the countries it is designed to serve.

The EBRD's eventual contribution to the economic rebuilding of the former communist bloc may turn out to be less impressive than expected. However, under Mr de Larosière's stewardship, the bank is unquestionably in a more solid position to tackle the task than in autumn 1993.

The former managing director of the International Monetary Fund and governor of the Bank of France took over after the previous president, Jacques Attali, resigned following revelations of over-spending and mismanagement at the bank. Mr de Larosière's first priority was to restore confidence among EBRD staff and shareholders that the bank could make a real contribution in spurring economic development in former communist countries. He has refocused the bank's energies squarely and decisively towards that goal.

> Mr de Larosière led the drive for more cost-effectiveness, freezing salaries for himself and senior staff and closing the executive dining rooms

Mr de Larosière is an unassuming man who lacks Mr Attali's visionary qualities but – partly because of that – commands rare respect on the international monetary circuit. He has a reputation for cool-headedness.

During his last weeks at the Bank of France, Mr de Larosière was on the front line during the foreign exchange crisis at the end of July 1993 when the French franc came under heavy pressure against the D-Mark.

During negotiations with the German government, he effectively took over the leadership of the French delegation, according to those present during the talks, virtually eclipsing Edmond Alphandéry, the French economy minister.

At the EBRD, Mr de Larosière has displayed similar strength of purpose. During his first few months, he quickly concluded that the bank, with 56 mainly government shareholders and Ecu10bn ($12bn) in equity capital, had become too bureaucratic and disorganised to carry out its mandate.

As a consequence, he has carried out a quiet revolution, streamlining staff, cutting increases in personnel and administrative costs and raising the number of banking professionals working directly on projects.

The EBRD president led the drive for more cost-effectiveness, freezing salaries for himself and senior employees and closing down the EBRD's executive dining rooms.

Mr Attali's relationship with the bank's 23-member London-based board was frequently adversarial. Mr de Larosière, by contrast, is the epitome of sobriety. Mr Attali used in turn to hector the board and ignore it, occasionally reading newspapers during meetings to show his disdain for the proceedings.

Mr de Larosière, by contrast, surprised other board members during his first meetings by taking notes of what was said. Mr de Larosière also abolished the merchant and development banking departments which previously handled separately private and public sector projects.

Although some of the boundaries between the bank's new "north" and "south" geographical departments looked a little arbitrary, the aim was to gear the EBRD's activities more closely to the needs of the 25 countries in which it operates.

Aided by Ron Freeman, the senior vice-president and No 2 at the bank, Mr de Larosière has led the drive to increase the EBRD's effectiveness by raising the number of investment instruments at its disposal. He wants the EBRD to widen its reach by taking more stakes in banks and investment funds in eastern countries. He also favours the EBRD stepping up its indirect lending through guarantees to back private sector project loans.

The EBRD statutes call for the bank's loans and equity investments to be split 60/40 between the private and public sectors. In some former Soviet republics viable private sector projects are hard to find.

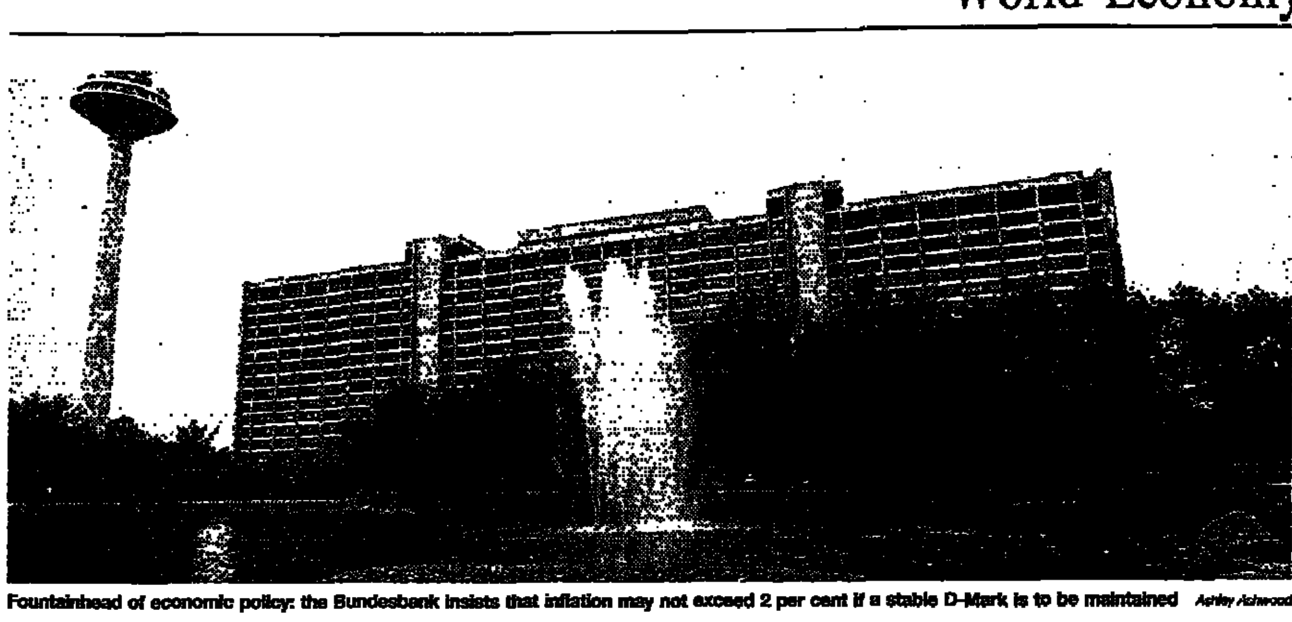
But Mr de Larosière has pledged to maintain the bank's priority leaning towards the private sector, and has brought in a number of young bankers who will work in the field in the EBRD's countries of operation, leading the search for new projects.

Countries such as the US and Germany among the EBRD's larger government shareholders have declared themselves pleased with the new approach and direction. However, some countries – led by the UK – claim that the bank could go further in slimming its operations by cutting back the size of the board, which accounts for 12 per cent of the EBRD's costs.

Mr de Larosière has succeeded in putting the bank back on an even keel. As a slow and patchy economic recovery gains ground in the east, the EBRD will be able to reap the benefits of improving fortunes among its clients. In some countries, however, economic recovery may throw fresh question marks over the bank's raison d'être. If economic structures and performance in the west of the former Soviet empire become increasingly aligned to those in the rest of Europe, the justification for a large public sector bank to nurture these countries' economies will look more questionable.

David Marsh

World Economy and Finance: 22



Fountainhead of economic policy: the Bundesbank insists that inflation may not exceed 2 per cent if a stable D-Mark is to be maintained *Ashley Ashwood*

Germany: critics have been caught offguard, says **Christopher Parkes**

Mighty leap out of recession

Critics who accuse the German economy of leaning too heavily on the rickety crutch of outdated industries have once again been caught off guard by its spring-heeled leap out of the 1993 recession.

Gross domestic product in the second quarter in former West Germany grew a real 1 per cent from the first three months, and was 2.3 per cent ahead of the second quarter of 1993.

The east, home to 20 per cent of the population but which still contributes less than 10 per cent of GDP, also staged a better-than-expected surge of almost 9 per cent growth, bringing the unadjusted aggregate for all Germany to 2.8 per cent.

Not bad for a country which, in the words of Hans Tietmeyer, Bundesbank president, some people consider is "on the way out, technologically backward, administratively hide-bound, and over-taxed by the task of building up the new federal states.

"For them, the German economic and social system is a discontinued model," he said recently.

While notionally addressing the great and the good during September's ceremonial farewells to the western allies in Berlin, Mr Tietmeyer was in effect reminding Germany that there is still a long way to go if the Jeremiahs are to be proved wrong.

He was repeating a well-worn script to the effect that while the cyclical upswing, led almost entirely by exports and construction, was welcome, structural change was still needed if the next cyclical slump was not to be even more steep and shocking than the last when growth of 1.8 per cent in 1992 was turned into contraction of 1.7 per cent in 1993.

Although Mr Tietmeyer said he disapproved of "blanket judgments" such as the one he cited, new challenges demanded far-reaching corrections over the next few years, above all in the economic field. Hide-bound structures had to be remedied.

Demands on pay and the social system had to reflect changes in "the real economic world. Germany had to free itself from the "tyranny of the status quo".

Some of these issues were addressed in the latest report on Germany from the Organisation for Economic Co-operation and Development (OECD). Unavoidably, the report dwelt on the financial and fiscal burdens imposed by unification. Sure, the eastern economy expanded 7 per cent last year, and is heading for 9 per cent this time, according to the OECD.

But this progress had been made possible only via annual hand-outs of some DM130bn – equivalent to almost 50 per cent of the east's GDP and 4.6 per cent of west Germany's economic output.

But there was more. As the report's authors pointed out, the annual transfers to the east were almost exactly matched by subsidies to ageing western industries, equivalent to a further 5 per cent of GDP.

Thanks to such burdens – neither of which is likely to be lightened significantly in the foreseeable future – German taxation is the highest in the industrial world after that of France.

Last year's government paper on securing Germany's industrial and economic future called for substantial tax reforms, and named cuts in industrial subsidies as a key step towards fiscal consolidation. Also included, as the OECD so pointedly reminded the Bonn government, were contentious issues such as restrictive shop opening hours, state-ownership and a less-than-optimal environment for innovative industries: all of which unnecessarily restrained economic growth.

If government could get to grips with and push through its catalogue of projects, "the German model of a social economy could win back its old strengths", the report said.

Bonn's privatisation and deregulation plans are being laid and put partly into action. Most recently the government modestly diluted its holding in the Lufthansa airline. Timetables have been drafted for the sale of stakes in Deutsche Telekom and the postal service. A bargain was recently struck allowing private competition into the distribution of mass mailings of items such as mail order catalogues and advertising brochures.

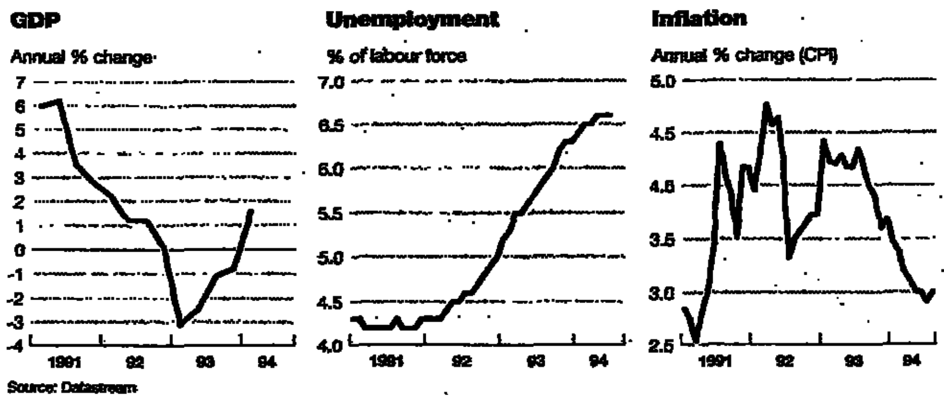
But deregulation and privatisation are, as yet, considered matters for concerted action only within the federal government, which controls only part of the nation's assets. Far more extensive holdings remain in the hands of local and regional *Länder* governments, including most of the country's airports, vast tracts of forest and agricultural land. Even the country's largest automotive group, Volkswagen, is controlled by the government of Lower Saxony – a Social Democrat stronghold with no intention of releasing its grip.

The path to deregulation in Germany is littered with obstacles. The devolution of decision-making – and tax-raising – powers within the federal structure is a significant hurdle. The concept of *Mitbestimmung* or co-determination which is deeply ingrained in the national mentality, routinely reduces decision-making to a snail's pace. But the debate is getting under way.

Although discussion of taxation and fiscal consolidation has been halted and blurred by election campaigns for most of this year, it will return as a central theme when the new federal government confronts its most important medium-term political challenge: European monetary union.

As the country which prides itself as the main driving force behind the European Union, it faces an uncomfortable situation next year when the ratio of public sector debt will exceed the Maastricht treaty criterion of 60 per cent of GDP. Even worse, an independent council of government advisers has recently warned finance minister Theo Waigel that getting back below the 60 per cent level will at best be difficult in the following years.

The experts have calculated that meeting the debt ratio guideline requires the fulfilment of a second Maastricht point – that government deficits should not exceed 3 per cent of GDP – and long-term nominal annual growth of 5 per cent. The snag is that economic growth at this rate implies annual inflation of 3 per cent, which is incompatible with the Bundesbank's insistence – not to say hide-bound attitude – that inflation may not exceed 2 per cent if its statutory obligation to maintain a stable D-Mark is to be fulfilled.



France: the recovery appears to be gathering pace, says **John Ridding**

Faster start than expected

The French economy has left the starting blocks faster than expected as it heads for recovery after the sharp recession of 1992-1993. Growth of 1 per cent in the second quarter, following a rise of 0.7 per cent in the first three months, has prompted most private sector economists to predict an expansion of about 2 per cent in gross domestic product this year, a target endorsed by the government.

Such a growth rate may this year bring only a marginal dent in the ranks of the country's 3.3m unemployed. But government officials argue that it provides the basis for a steady longer-term recovery. Edmond Alphandéry, the economics minister, believes growth next year will be at least 3 per cent and that such a rate of expansion is sustainable over the medium term.

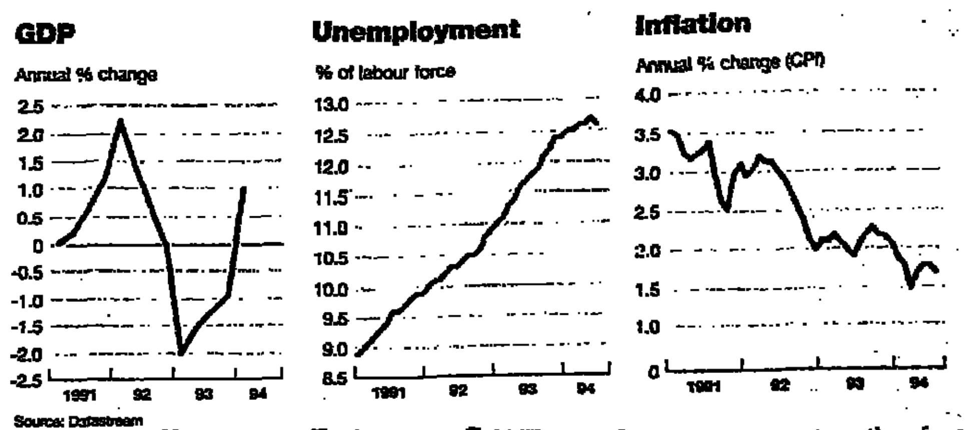
The rate of revival undermines the claims of those who argued during last year's currency crisis that France's anti-inflationary stance and its allegiance to the Bundesbank's monetary policy would prevent economic revival. But while inflation appears firmly under control, with consumer prices growing at an annualised rate of about 1.7 per cent, some question marks remain about the stamina of the recovery and about the government's ability to tackle the structural problems facing the French economy.

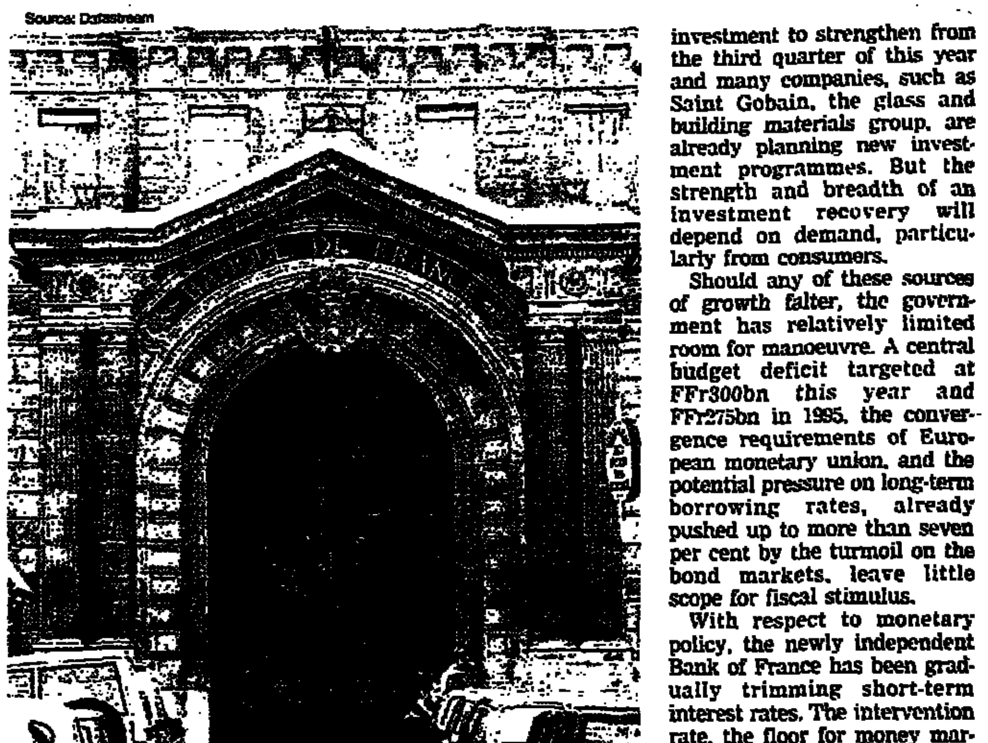
Edouard Balladur, the prime minister, has himself warned about bumps on the road to restored economic health. "This is the beginning of a real recovery. But it may be that in the months ahead we have some disappointments ... whether it is production, export or employment figures," he said in August.

So far, economic revival has been largely powered by the corporate sector and by sporadic specific bursts in consumer spending. French industry has sharply reduced its rate of destocking, particularly in the intermediate goods sector, providing a boost to growth figures. In the first quarter this re-stocking represented the most important source of growth, maintaining its effect into the second quarter.

French industry has also benefited from improved demand in international markets. Stronger growth in Germany, France's most important trading partner, has added to the boost to exporters from the dynamic US and east Asian markets, prompting a series of substantial trade surpluses. The surpluses, which amounted to FFr7.6bn in May, for example, are expected to narrow as imports revive in line with the economy.

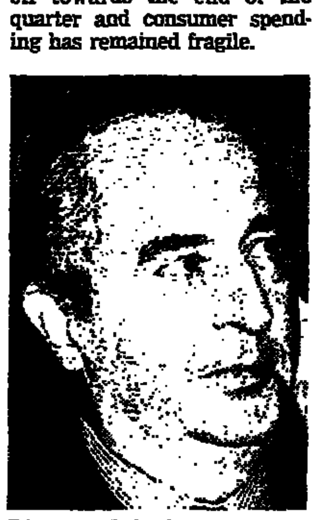
If the corporate sector has provided the basis for recovery, however, the key questions facing policy makers relate to whether consumption and investment will be able to take up the running and keep the economic cycle turning.





Newly independent Bank of France: short-term interest rates trimmed

France's consumers have yet to prove that they are willing to play their part in a sustained economic revival. Spending in the second quarter was robust, but this partly reflected special incentives – notably a strong boost to car purchases stemming from a government offer to provide FFr5,000 to those who traded in an old vehicle to buy a new one. That effect started to wear off towards the end of the quarter and consumer spending has remained fragile.



Edouard Balladur: bumps on the road to restored economic health

Many economists believe that such fragility is just a passing phase, to be ended by the improving labour market situation. Recent statistics demonstrate a stabilisation in the unemployment rate and hold the promise of a fall in joblessness from the end of the year. "We are already seeing a big increase in jobs created," says Bernard Godement, chief economist of Nomura Research Institute in Paris. "There will be an important psychological effect on consumers."

Others, however, are yet to be convinced. Esther Baroudy, senior economist at Crédit Lyonnais, questions the quality of jobs being created and cites structural factors, such as reduced payments from the creaking state pension scheme, as important determinants of consumer behaviour.

Investment is another area of uncertainty. "The corporate sector has a strong financial position, and many firms reported big gains in turnover in the first half," says one economist at a US merchant bank. "Set against this are still high levels of capacity and interest rates that make financial investment attractive."

Most economists expect investment to strengthen from the third quarter of this year and many companies, such as Saint Gobain, the glass and building materials group, are already planning new investment programmes. But the strength and breadth of an investment recovery will depend on demand, particularly from consumers.

Should any of these sources of growth falter, the government has relatively limited room for manoeuvre. A central budget deficit targeted at FFr300bn this year and FFr275bn in 1995, the convergence requirements of European monetary union, and the potential pressure on long-term borrowing rates, already pushed up to more than seven per cent by the turmoil on the bond markets, leave little scope for fiscal stimulus.

With respect to monetary policy, the newly independent Bank of France has been gradually trimming short-term interest rates. The intervention rate, the floor for money market rates, has been reduced to 5 per cent from 6.2 per cent at the beginning of the year.

The strong performance of the German economy and the rise in interest rates in other industrialised nations suggests, however, it will be hard to ease borrowing costs further. With inflation moribund, the real cost of borrowing will remain higher than in most of France's rivals.

Increased importance is therefore placed on the government's ability to implement structural reforms, notably in the labour market and in the social security system. Mr Balladur's instincts are in the direction of reform, but progress has been limited by political sensitivities. The introduction of private pension schemes, aimed at easing the burden on the state system, has been delayed, while a plan to lower the minimum wage for graduate apprentices was abandoned in the face of student protests.

Such caution largely reflects Mr Balladur's reluctance to rock the boat ahead of next spring's presidential elections. Failure to press ahead with reforms after the election, however, will mean that the emerging recovery will only serve to mask the structural weaknesses which persist in the economy.

Profile: HANS TIETMEYER

An enlightened monetarist

Hans Tietmeyer started off living up handsomely to the consensus characterisation in the welter of profiles which marked his installation as Bundesbank president last October.

Circumstances quickly conspired either to encourage or oblige him to demonstrate both the stubbornness attributed to him by colleagues, and the application of enlightened, pragmatic monetarism on which he prides himself. He has also had occasion to show his temper.

Within three weeks of his taking the chair of the central bank's policy council, a surprise cut in the Bundesbank's internationally-sensitive discount rate earned the bank rare praise from foreign authorities which had been pressing – without much optimism – for action.

While announcing the opportunistic move, Mr Tietmeyer used the press conference effectively to define his attitude to the job. What emerged was that no matter how enlightened he might be, he was still a monetarist in the old Bundesbank mould. One perceptive observer had forecast earlier that the world could expect more pragmatism from the new president but "the same amount of monetarism" as his dry predecessor, Helmut Schlesinger.

Even while Lloyd Bentsen, the US treasury secretary, was congratulating the Frankfurt authorities on the rate cut's contribution to international economic recovery and job creation, Mr Tietmeyer was insisting that central bank policy was not driven by external requirements, economic conditions or exchange rate considerations.

Then, on a theme he had consistently voiced in the past, and was to return to and expand on frequently in the subsequent months, he added: "We cannot be a central bank for Europe."

He seemed concerned to dispel any expectations, fuelled by the profile-writers' focus on his sensitivity to international matters, that his fundamental approach to monetary policy would be influenced by any interests other than those of Germany.

A streak of stubbornness and temper have appeared more recently

His streak of stubbornness and temper have appeared more recently, during bouts of financial market turbulence caused not least by the confusion over the bank's eccentric M3 measure of money supply. Demands from analysts and a usually compliant domestic press corps that the bank should either clearly explain the whirligig gyrations of its inflation weather vane or scrap it, have met a stonewall defence. After some confusion in Bundesbank ranks over how to restore faith, Mr Tietmeyer, flanked mainly by directorate colleague Otmar Issing, set about trying to patch up the damage in a series of carefully orchestrated speeches.

Mr Tietmeyer's stance became clear at a heavily-attended social gathering of international bankers in Frankfurt in mid-June, during which he suggested obliquely that fellow council members should shut up on the issue. Difficulties with M3 needed to be explained and clarified, he said, and it would be better done in "symphonic rather than cacophonic" form.

A speech from Alexandre Lamfalussy, president of the European Monetary Institute, obligingly supported the Bundesbank standpoint: "Money supply *does* matter for the medium- to long-term behaviour of prices," he said, and left the microphone to Mr Tietmeyer.

There were many reasons why the Bundesbank had relied on monetary targeting as a policy anchor for 20 years, and as far as he was concerned, there were no grounds for the central council to call it into question now, Mr Tietmeyer said. He followed up with a deft review of how the merits of monetary targeting outweighed its demerits, and a side-swipe at the "not-very-enticing" and opaque alternatives practised in the Anglo-Saxon world.

Despite appearances, the Bundesbank was far from fixated on M3, he said. Even in Frankfurt, the conduct of monetary policy allowed room for intuition, flexibility and pragmatism.

But in an especially revealing passage he effectively admitted he had learned hard lessons from recent events. He noted wrily that even a missed money supply target had some value. As the "financial markets seismograph" had shown, it should act as a warning not to push pragmatism too far.

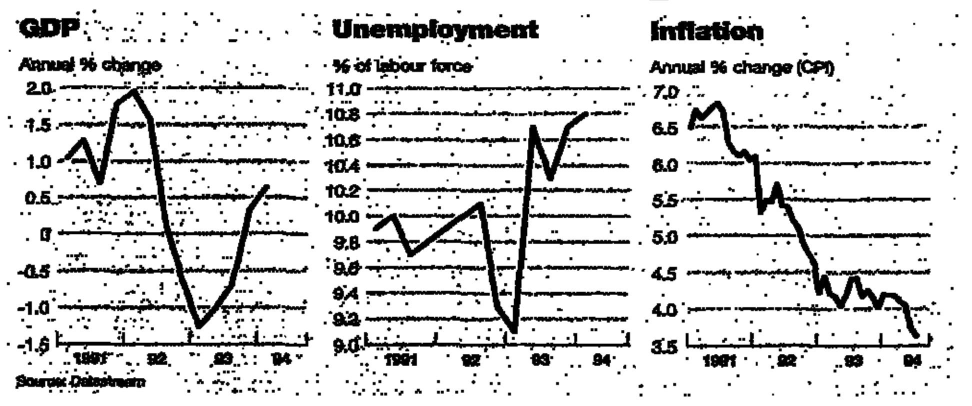
Mr Tietmeyer had formerly taken some pride in the fact that, unlike his two predecessors, he had never rattled foreign exchange markets through careless talk about the D-Mark. He still refuses steadfastly to comment on exchange rate swings. But during May and June he found himself confronted by wider turmoil in world financial markets to which actions and statements from the German central bank had contributed to no mean extent.

The bank's credibility – by his own admission its most valuable asset – suffered as a consequence, and by association, so did President Tietmeyer's.

Christopher Parkes

Italy: **Robert Graham** on how the Berlusconi government is tackling problems

Deficit clouds prospects



Italy's huge public sector deficit hangs like a sword of Damocles over every aspect of economic policy of the five-month-old Berlusconi government.

The way in which the right wing coalition tackles the debt issue, in the context of a tough 1995 budget and a broader coherent macroeconomic strategy, will be an important factor in determining the durability of this new and inexperienced administration.

The stakes are high. If the policies fail to convince the market, this will inevitably lead to a further weakening of the lira, inflationary pressures and a punishing rise in interest rates.

This vicious cycle will limit Italy's ability to take advantage of the domestic economic recovery and the generalised recovery among industrialised countries.

As it is, the economy is set to grow 1.5 per cent this year and close to 3 per cent in 1995. Exports continue to enjoy an unprecedented boom with the first-half trade surplus of L16,000bn ($10bn) double that of the same period in 1993. Inflation, helped by low wage demands, is down to an annualised 3.7 per cent, the lowest level since the 1960s.

But all these positive elements are dwarfed by the problems of Italy's public finances which in turn limit the country's ability to meet the European Union convergence criteria laid down by the Maastricht treaty. Unfortunately, too, the Berlusconi government has got off to a bad start, unnecessarily alienating *the markets by giving the* wrong signals.

On taking office as premier in May, Silvio Berlusconi, the media magnate turned politician, failed to give sufficient priority to tackling the public sector deficit.

Instead he appeared more intent on kick-starting the recovery, his first measures being investment, share purchase and job creation incentives.

At the same time Mr Berlusconi gave far too little attention to the constraints imposed by the debt, it being close to 125 per cent of GDP – double the limit set down by the Maastricht convergence criteria.

These failings were compounded by Mr Berlusconi's visceral distaste for increasing the fiscal pressure after an electoral campaign in which he promised no new taxes and also pledged a progressive reduction of the tax burden. This stance on taxation has tied the hands of the new economic team and complicated their task in finding the large amounts of money necessary to hold down the 1995 budget deficit to below 9 per cent of GDP.

The government inherited an overshoot in spending and a shortfall in revenues. This situation was no secret and the outgoing Ciampi administration had made it clear that a mid-year correction was necessary to control the 1994 budget rising L15,000bn above initial provisions. However, Mr Berlusconi has avoided a formal mini-budget.

Instead, the new economic team headed by Lamberto Dini, the treasury minister and for*mer director-general of the* Bank of Italy, chose to raise the funds through two measures that would also roll over into 1995 – an amnesty for illicit construction (raising funds through property registration fees), and a form of tax pardon allowing quick and favourable settlements to a huge backlog of disputes with the tax authorities. These practical and politically popular measures are expected to raise some L6,000bn this year. Next year they are due to bring in at least L15,000bn.

But some economists are concerned that a new government tackling chronic deficit problems should have resorted at the outset to once-off measures – measures which also had a history in Italy of generating less revenue than predicted. The economists also feel that the greater than anticipated 1994 budget deficit (L159,000bn instead L144,000bn) should have been corrected completely and not partially as has been done.

In all, the government is pledged to find almost L50,000bn in 1995. This is probably the minimum necessary to convince the markets and it involves continued austerity budgets through 1996 and 1997. Even so, finding such funds is a formidable task and the government is relying essentially on spending cuts and juggling with existing taxes. The full shape of the budget will not be known until the end of this month and it is not clear how the painful spending cuts will fall.

Against this uncertain background – and the aggravation of a damaging row between the *government and the Bank of* Italy over the latter's autonomy – the lira has been weak and government bonds have taken a beating. The lira by the end of July had reached its psychological floor of L1,000 against the D-Mark and by early August had fallen to a historic low of L1030.

Not surprisingly, the Bank of Italy was obliged to raise on August 11 its benchmark discount rate by half a percentage point to 7.5 per cent. This was the first such rise since the September 1992 European currency crisis. Bonds are now having to be offered at rates as much as 4.5 percentage points above German interest rates and over the next few months a large stock of bonds are due to mature.

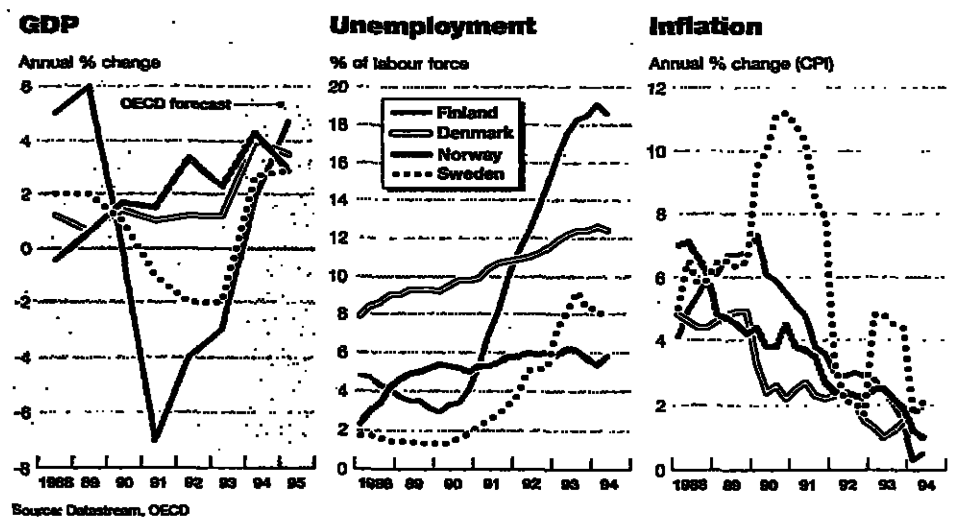
Analysts reckon, as a rule of thumb, that a 1 percentage point increase/decrease in interest rates means an additional annual cost/saving of L15,000bn. In other words, virtually a quarter of the new revenues being sought in 1995 could be eaten up by a 1 percentage point rise in interest rates. It also raises the question whether it is realistic to believe the latest forecast that the total of debt as a proportion of GDP will level off in 1995 at 128 per cent

The treasury's 1995 document released in July forecast debt service would be L169,000bn. Since 1992, the size of Italy's annual debt service payments has exceeded that of the budget deficit. Italy in fact will run a primary surplus on its budget this year (the difference between revenues and expenditures less interest charges) equivalent to nearly 1 *per cent of GDP.*

The primary surplus in 1995 is expected to rise to 1.7 per cent of GDP and to 2.6 per cent the following year. The 1995 budget itself is predicated on holding the rise in public spending to 2.5 per cent, the rate of projected inflation against a planned 2.7 per cent rise in GDP. This means finding cuts of some L32,000bn.

Scandinavia: **Christopher Brown-Humes** examines the four economies

Recovery gains momentum



Some of Europe's best rates of growth will be found in the *Nordic area this year as a* steady recovery from the region's deepest recession since the 1930s gains momentum. For the first time since 1990, Sweden, Finland, Denmark and Norway will all see their economies expand. In the case of Denmark and Norway, gross domestic product will probably rise by more than 4 per cent, putting them at the top of the European growth league.

Despite this, the deterioration in the international bond market this year has had a particularly severe impact on the Nordic region and led to a renewed focus on some of the area's underlying problems. The markets are alarmed at the prospect of a new surge in inflation. They are worried about the state of government finances in Sweden and Finland. And they are fretting about the round of EU referendums due later in the autumn. The nervous mood has forced up bond yields, worsening government finances and slowing the pace of the recovery.

But at least there is a recovery – which is a marked contrast with the past three years when the Nordics were battered by high interest rates, slumping demand, rising unemployment and financial sector crisis. Worst hit were Sweden and Finland which both recorded three consecutive years of negative economic growth. In Finland, where the general difficulties were exacerbated by the collapse of trade with the former Soviet Union, *GDP shrank by 13 per cent* between 1991 and 1993. In Sweden GDP fell 5 per cent over the same period.

Common factors behind the revival have been a sharp drop in short-term interest rates and a strengthening world economy. Otherwise the pattern shows a marked difference between Finland and Sweden, which have relied on exports to assist their recovery after the sharp weakening of their currencies in the past two years, and Denmark and Norway where the momentum has been assisted by fiscal expansion. The difference is that budget deficits have constrained Finland and Sweden to keep a tight grip on spending while Norway and Denmark, with low budget deficits, have been able to promote a recovery in domestic demand through fiscal expansion.

Nowhere has the recent pressure been felt more keenly than in Sweden and Finland, where politicians' attempts to talk up the economy have been sabotaged by the controversy surrounding large budget deficits and rising state debt. Bonds in both countries have taken a mauling. In Sweden, for example, 10-year bonds *have traded at more than 400* basis points above their German equivalent (contrast Denmark where the gap has been nearer to 200 basis points). Many of Sweden's leading financial institutions have been hit by the turmoil, prompting Skandia, one of the country's two leading insurers, to announce a boycott of Swedish bonds in early July.

Although bond markets worldwide have been turbulent since US interest rates began climbing earlier this year, sentiment towards Sweden has deteriorated for two reasons. One is the wretched state of the country's finances and doubts about the readiness of politicians to tackle the problem with sufficient vigour.

Second, investors have been demanding a risk premium because of fears that inflation will be rekindled. Sweden has a poor record on inflation as well as a reputation for resorting to devaluation to sort out its problems. Although price rises have been remarkably subdued following the country's last devaluation in 1992, inflationary pressures have started to build because of capacity constraints. As a result, the central bank, the *Riksbank, increased short-term* interest rates in August.

The depressed domestic economy and the rise in interest rates means forecasters are shaving their earlier growth predictions. At the gloomy end of the range is Nordbanken which now expects Sweden's GDP to grow by just 1 per cent this year, and 2 per cent in 1995. This is much the lowest rate in the region and has helped raise the spectre of a new economic trough characterised by low growth and high interest rates. The winners of the recent election, the Social Democrats, have promised big tax rises which will almost certainly restrain any increase in demand next year.

Finland shares many of Sweden's problems, although the economy there is bouncing back more vigorously. The country's finance ministry forecasts GDP growth this year of 3.5 per cent rising to 4.5 per cent in 1995. Independent commentators have suggested growth could exceed 6 per cent.

The Danish government is expecting growth of 4.4 per cent this year and 3 per cent in 1995. Private consumer spending is surging on the back of tax cuts and mortgage reduc*tions. But the boom is sucking* in imports and cutting the current account surplus.

The Norwegian economy is benefiting from generally stronger oil prices and record-high oil production from the North Sea. But even the non-oil economy is doing well, with predictions suggesting that mainland GDP will rise by 3 per cent this year.

Benelux countries: **Lionel Barber** reports

Brighter future ahead

The faster-than-expected recovery in Germany is having a locomotive effect on the economies of Belgium, the Netherlands and the Grand Duchy of Luxembourg. Pulled along by their powerful neighbour, the Benelux countries *are looking at a brighter future* based on low inflation and solid growth.

The recovery – coupled with relative currency stability since the upheavals of 1992/93 – has rekindled hopes of a European monetary union taking shape before the end of the century. No one should underestimate the technical and political difficulties which lie ahead; but the Benelux countries, traditionally the most integrationist-minded in Europe, can reasonably expect to be in the vanguard of a hard core of committed countries intent on creating a single currency and able to do so.

The blackest cloud on the horizon is unemployment. Without annual growth reaching between 3 per cent to 3.5 per cent, there is little prospect of creating the new jobs to reduce the length of the dole queues. Without new jobs, especially for young people, the prospect looms of expensive subsidised work programmes, lost employment revenues, pressure on public deficits, perhaps even social unrest.

Starting with the European Commission's White Paper on jobs, competitiveness and growth, a series of official studies have argued that a cyclical recovery alone will not be enough to reduce unemployment in Europe. As the latest report by the Paris-based Organisation of Economic Co-operation and Development makes clear, this economics lesson applies just as much to the traditionally virtuous Benelux countries as it does to their laxer EU partners.

The OECD remedy is an assault on "structural unemployment". In effect, this means dismantling rigidities in the labour market, as well as reductions in the minimum wage and welfare benefits to prod people into looking for work. What makes these measures so painful in the Benelux countries is that they challenge the post-second world war model of the social market economy and welfare state which lies at the core of their political identity.

By the Netherlands' own narrow definition of unemployment, only about 7 per cent of the labour force is out of work. But the more telling figures are contained in the OECD's broader definition which takes in all people of working age receiving disability and other types of social security benefits, as well as people enrolled in special job creation programmes. By this measure, unemployment in the Netherlands stands at 25 per cent.

How does the new Dutch coalition government headed by Prime Minister Wim Kok intend to grapple with this challenge? The first move will be to reduce taxes and social premiums to encourage employers to hire job-seekers. Second, the government will examine whether some sectors in the economy may warrant exemption from the minimum wage laws so as to generate more entry-level jobs. Third, the state is likely to create an estimated 40,000 jobs in areas such as home help for the elderly, child care, public safety and security.

The one area which seems certain to remain taboo is unemployment benefit. No one is talking about reducing unemployment benefit to put pressure on people out of work to leave the dole. Perhaps that is inevitable given Mr Kok's Labour party background. But the coalition government knows that even if economic growth creates, say, 230,000 jobs over the next four years, it will not be enough to compensate for the 300,000 expected to enter the workforce over the same period.

In Belgium, similar worries about unemployment cloud the economic debate. This year, the number out of work is likely to be just over 10 per cent. With growth likely to be marginally under the Netherlands' projection of around 2.5 per cent, there is little prospect of reducing unemployment.

The coalition government led by Jean-Luc Dehaene *is setting* great store by the "global pact" concluded with employers last year which amounts to the most ambitious attempt to curb social spending since the second world war. As part of the package, new energy taxes should be recycled into the tradeable goods sector to reduce employers' payroll taxes. According to Alfons Verplaetse, governor of the Belgian national bank, this could create 50,000 new jobs

On the brighter side, the Belgium and Luxembourg economic union is likely to show a handsome surplus in the current account this year of BFr400 bn, or 5 per cent of GDP. This figure is double the average surpluses of the second half of the 1980s. Most important, the mix has changed, with about half of the surplus ending up on the trade account.

What is striking is that three-fifths of this surplus comes from Belgium, whereas the banking centre of Luxembourg traditionally accounted for around three-quarters. So why are Belgian exports rising so fast when Belgian wages are marginally higher than in neighbouring markets and Belgium is paying a competitive price for its hard franc policy? The suspicion, says Phillipe Maystadt, Belgium's finance minister, is that the adjustment is taking place through higher unemployment.

The Netherlands and Belgium face stiff challenges to restore public finances after the recession. But both realise that this is the precondition for EMU which sets targets of 3 per cent of GDP for the annual budget deficit and 60 per cent of GDP for accumulated government debt.

After several years of steady, albeit small falls, the annual budget deficit in the Netherlands in 1995 and 1996 is expected to be static at 3.3 per cent of GDP. It is then expected to fall to 3.1 per cent in 1997 and 2.9 per cent in 1998.

In Belgium, the government is forecasting that the annual budget deficit is likely to be an uncomfortably high 5.3 per cent in 1994; but thereafter officials are confident that it will drop sharply to 4.3 per cent in 1995 and 3 per cent in 1996 (which just happens to be the year when the Maastricht review of early candidates for EMU will take place).

In the short-term, the Benelux countries must hold their nerve. Having survived a traumatic recession, the governments need to continue the painful reforms in labour markets and to contain budget deficits. EMU is both the incentive and the prize.

World Economy and Finance: 24

United Kingdom: **Philip Coggan** on post-ERM progress

The numbers look good

On few occasions since the second world war can the headline statistics on the British economy have been quite so good.

Economic growth in 1994 looks set to be more than 3 per cent and should be higher than inflation, which hovers around the lower half of the government's 1-4 per cent target range.

Interest rates, even after this month's unexpected base rate rise, are low by historic standards. Unemployment is falling. And while there is a trade deficit, it appears to be edging downwards.

Unfortunately for the Conservative government, economic success has not translated into political popularity and sceptics think the good news will not last.

Many believe that at some point in the present recovery, the old British cycle of boom and bust, of inflation and balance of payments crises, will return.

Critics also point out that the fall in unemployment has not been matched by a corresponding increase in employment; in other words, discouraged workers have dropped off the register rather than taken jobs.

Furthermore, those new jobs which have been created have been largely part-time.

Nevertheless, the economic picture looks infinitely better than seemed likely at the time of Britain's humiliating departure from the exchange rate mechanism in September 1992. For a start, devaluation did not lead to higher inflation, as many expected. And, perhaps more by luck than judgment, the post-ERM policy structure has performed fairly well.

A combination of a 1-4 per cent inflation target and a greater role for the Bank of England gave the UK's economic policies some much needed credibility.

The markets now perceive that it would be difficult for any Chancellor of the Exchequer to make politically-inspired base rate cuts in the face of the opposition of the governor of the Bank of England, especially as the latter's displeasure would quickly be made public through the medium of the meeting's minutes. The government also took decisive steps to bring the public sector deficit under control. Credibility was boosted further by Kenneth Clarke's decision this month to raise base rates to 5.75 per cent from 5.25 per cent.

The government's success in cutting the budget deficit, while incurring political unpopularity because of tax increases, has helped save Britain from the kind of problems which have enveloped debt-prone Belgium, Italy and Sweden.

Much economic debate centres on the size of the so-called "output gap", the difference between actual and potential output resulting from recession. Theory suggests that once the output gap disappears, inflationary pressures start to emerge with capacity constraints. But while an output gap exists, Britain can grow at an above trend rate, without boosting inflation.

It all depends,on the size of the gap and the long-term trend rate of growth. The problem for policy makers and analysts is that nobody knows the size of the output gap or has a very clear idea about the trend rate of growth. Economic debate, therefore, often has an "angels on a pinhead" feel.

But one important and connected issue is whether the UK has failed to invest enough to allow for sustainable long-term growth at an annual rate of 2 per cent plus

Investment in UK manufacturing fell by a third between 1989 and the second quarter of 1994, leaving it at its lowest level as a proportion of GDP for more than 30 years. Confederation of British Industry surveys show only a modest increase in manufacturers' intentions to invest, despite more than two years of GDP growth.

Nevertheless, there has been some sign of a pick-up in investment in 1994. Companies seem to have used the early stages of recovery as a chance to repay their debt and repair their balance sheets. Now that task is largely completed, they can invest some of their healthy profits. Manufacturing investment rose in the second quarter of 1994 for the first time in two years.

On the demand side, there are signs that consumer spending, which played a strong part in the early stages of the recovery, might be slowing down. Second quarter GDP figures showed an encouraging shift in the "mix" of economic growth. Exports contributed more than half the 1 per cent quarter-on-quarter rise.

Meanwhile, consumer spending, having risen by 1 per cent plus in each of the past two quarters of 1993, grew by only 0.3 per cent in the first quarter of 1994 and 0.2 per cent in the second quarter. An export and investment-led recovery is the ideal outcome, in most economists' eyes.

The new low levels of mortgage lending have been an important factor in restraining the growth rate of broad money – M4. Although narrow money, M0, has consistently grown outside its 0-4 per cent target range, monetarists argue that inflation is unlikely to be a threat while M4 growth is so sluggish.

Another inflationary demon, escalating wage increases, is still relatively subdued. While there was a jump in the annual rate of growth in average earnings in early 1994, the summer saw the rate stabilise at a modest 3¾ per cent.

One cloud on the inflation horizon appears to be higher commodity prices. These may be a small part of manufacturers' costs, but could still have a knock-on effect on consumer prices.

While inflation indicators are barely flashing amber, what about that other British economic bugbear, the trade deficit? There are some signs of improvement, with exporters benefiting from a weak pound.

In the second quarter of 1994, the current account deficit dropped below £1bn, thanks to a sharply improved exports and a robust invisibles surplus. Meanwhile, the visible trade deficit fell to £2.4bn in the second quarter, from £3bn in the first quarter.

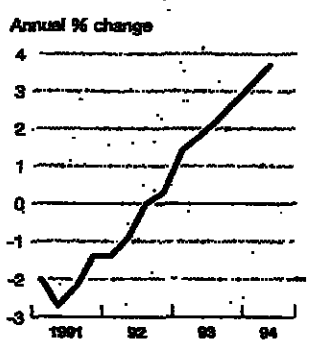
However, these figures need to be treated with caution.

It may be that Britain is at just the stage of the cycle when the numbers look good; when there is enough spare capacity for the economy to grow without causing inflation, or sucking in imports. Or it may be that there has been a genuine shift towards a low inflation era and a more efficient industrial sector. It is too early in the economic cycle to settle the argument.

But if the pessimists are right, the government's electoral prospects may be the chief victim.

GDP

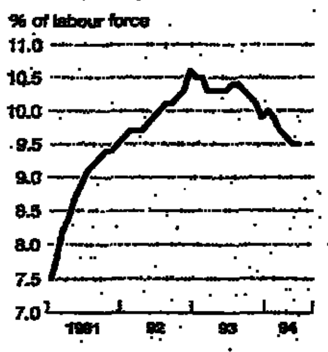
Annual % change



Source: Datastream

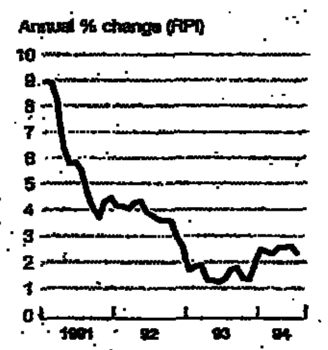
Unemployment

% of labour force



Inflation

Annual % change (RPI)



Profile: KENNETH CLARKE

Prudent and decisive

Some 16 months into the job, Kenneth Clarke is emerging as a one of the more impressive chancellors in Britain's post-war history.

His decision earlier this month to raise UK interest rates by half a percentage point while inflation was at a 27-year low showed he was prepared to act as well as talk tough to nip incipient inflationary pressures in the bud.

In his first Budget, 10 months ago, he showed similar decisiveness, raising taxes and cutting public spending to quicken the pace at which the UK's budget deficit is lowered.

Both actions showed that Mr Clarke is prepared to take political risks to establish a record of economic prudence.

Although the UK economy grew at a rapid 3.8 per cent in the first half of this year, the interest rate rise could still backfire if recent signs of a slight slowdown in the growth of consumer demand presage a more significant reversal of the recovery from the recession of the early 1990s.

The tax rises, coming on top of those decided in the March 1993 Budget of the former chancellor Norman Lamont, added up to one of the most severe fiscal tightenings in Britain this century. It would have been easy to imagine another incoming chancellor, whose experience of high office had been in spending ministries, looking at a then uncertain recovery and at the Tory party's very poor ranking in the opinion polls and deciding on a less radical course.

But, unusually for a British politician, Mr Clarke is prepared to take a medium-term view of the economy and politics. He is serious when he says he wants to avoid the boom and bust cycles that have so often plagued Britain since the second world war.

Realising how UK economic policies suffer from a credibility gap, he has acted to accord a greater role in monetary policy to the Bank of England. He has moved to make policy more transparent and accountable, notably through publishing the minutes of his monthly meetings with Eddie George, the Bank of England governor.

His aim, stated in his "Mansion House speech" to the City in June is "a long period of healthy balanced growth, which creates jobs and sees gradually higher living standards for all".

He has faith that the British people will respect a government that "sticks to its prospectus" of putting the public finances on an even keel at the expense of short-term populist measures. He has pledged to keep tight control of public expenditure and only permit tax cuts when the country can afford them. In hammering home this message, he has cut through the old convention that a chancellor should stay silent about tax plans in the months ahead of his Budget.

At the press conference to announce this month's rise in UK bank base rates to 5.75 per cent from 5.25 per cent, Mr Clarke bluntly ruled out tax cuts in his forthcoming Budget on November 29. Tax cuts would jeopardise recovery. Even if the public sector borrowing requirement were likely to end up lower than the £36bn forecast for the 1994-95 financial year it would be "hopelessly premature" to lower taxes in November. Giving the idea "no chance", he dismissed it as "not serious politics".

In fact, Mr Clarke, when thinking about politics, gives the British public far more credit for economic common sense than many of his colleagues in the House of Commons or analysts in the City.

While making clear that his long-term goal is to cut taxes, he told his audience at the Mansion House that: "The public are usually more sensible than politicians and the press. They will not put their confidence in a government that cuts taxes before getting borrowing under control."

He is equally determined not to generate a "fraudulent, inflationary feel good factor" among the electorate. This would soon turn "to 'feel very bad' as the bust followed the boom".

Such earthy common sense reflects a man who has risen to high office and yet never lost sight of his relatively humble origins as the son of a hard-working watch repairer in Nottinghamshire, in Britain's industrial Midlands.

Mr Clarke's climb up the political greasy pole began with scholarship successes to the upmarket Nottingham High School and to Cambridge University where he studied law and forged early alliances with fellow students who were to form the "Cambridge Mafia" in the Tory governments of the 1970s and 1980s.

But his political career has been anything but smooth. Although he was just under 30 when he won the Nottinghamshire seat of Rushcliffe in 1970, the choice of Margaret Thatcher as Tory leader in 1975 left him isolated. As one of the party's more prominent young left-wingers and and a pro-European, he stayed a junior minister until 1985.

After entering the cabinet as a minister in the department of employment, he won a reputation as a battler against vested interests. As health secretary he began the controversial reforms of the National Health Service and became embroiled in politically costly disputes with doctors and ambulance workers. He won few friends among the educational establishment as education secretary and as home secretary courted trouble by seeking to restructure the police.

That he was appointed chancellor in May 1993 was a measure of the failure of the government's policy to peg sterling to the D-Mark in the European exchange rate mechanism and the inability of Mr Lamont, his hapless predecessor, to recover from the humiliation of the pound's forced exit from the ERM two years ago.

Mr Clarke has been lucky at the Treasury. He inherited an economy with low inflation and low interest rates that was recovering more strongly from recession than people recognised at the time.

This month's decision to raise interest rates is a pointer to more testing times ahead. The chancellor's response to date has been characteristically robust. It remains to be seen whether such bravery yields the desired economic and political rewards.

Peter Norman

Spain: the host country for this year's meetings has the OECD's highest jobless rate, reports **Tom Burns**

Prescription could fall well short of a cure

The economy in Spain, host nation for this year's IMF and World Bank meetings, is recovering like those in other OECD member states. But, in its effort to achieve sustainable GDP growth, Spain may face greater problems than many of its partners.

The Madrid authorities can take credit for laying the foundations for sound money. They are curbing inflation and cutting back on the general government deficit. The current account balance of payments deficit, which was slightly above 3 per cent of GDP in 1992 and narrowed to 0.8 per cent in 1993, is expected this year to break even or show a slight surplus.

The devalued peseta has had an electric effect on exports and on tourism receipts, amply compensating for weak domestic demand. GDP growth is on line to reach possibly as much as 2 per cent this year.

Yet, the patient in this case is especially sick and the prescription could still fall well short of a cure. Even when there was a healthy current account surplus, as there was in the mid-1980s, and even when GDP growth outstrips that of the OECD average, as occurred in those years, unemployment has remained very high and participation rates very low.

Spain has the highest jobless level in the OECD – a gap of around 10 points has for several years separated Spain's unemployment level from that of the OECD average – and the participation rate of its working age population is, at 49 per cent, embarrassingly low in comparison with those of its trading partners.

At the end of June, Spain's jobless total stood at 3.7m, 24.2 per cent of the working population, according to the government's quarterly employment survey. This figure followed a net job rise of nearly 30,000 in May and June.

Such statistics, indicating that one in four Spaniards of working age are idle, should be balanced against estimates which suggest that as many as 1m are employed in the submerged or informal economy. The political fall-out of such a high jobless rate is, in addition, contained by the extended family network that for the time being remains strongly entrenched in Spanish society.

The economic ministry's latest forecast is that in December the number of employed Spaniards should be slightly higher than the 11.7m registered in December 1993. Should the number of workers rise in December, the increase will represent the first positive inter-annual variation since the third quarter of 1991.

The problem, however, is not that there are very few people working in Spain, but that not enough jobs have existed for Spaniards for a long time. In a recent report, ICAE, the economic analysis institute of Madrid's Complutense University, noted bluntly that over the past 20 years the Spanish economy had "shown itself to be manifestly incapable of generating sufficient jobs".

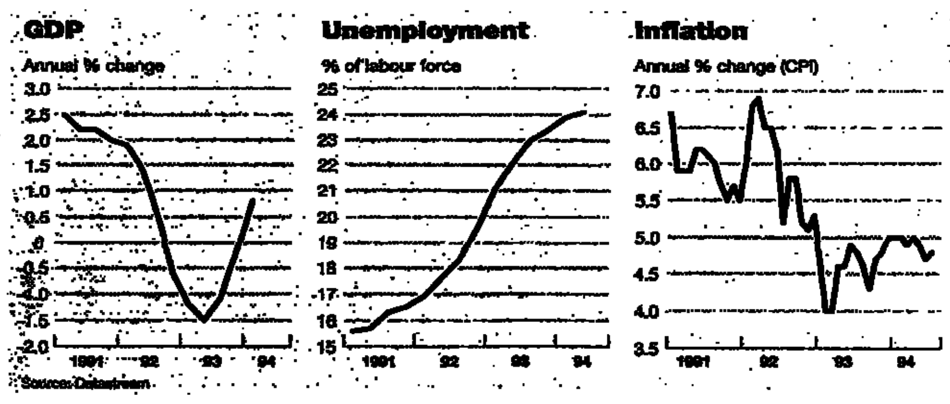
The Madrid authorities can take credit for laying the foundations for sound money

Diminishing employment is a general story in the European Union but nowhere is it more compellingly serious than in Spain: over the past 30 years Spain's GDP has tripled in volume and the domestic population has grown by 25 per cent. But with just under 11.7m employed, there are no more job holders in 1994 than there were in 1964.

The consequence of the domestic economy's structural imbalances, as evidenced by the unemployment level, is that when these disequilibria are added to the cyclical problems which the Spanish economy shares with the rest of the OECD, international markets are prompted to set Spain's finances apart, and to penalise them accordingly. When bond yields rose in Europe earlier this year, on the back of interest rate rises in the US, they became especially volatile in Spain.

To the dismay of a domestic industry which desperately needs internal demand to be kick-started, Spain's economic ministry acknowledged in its latest bulletin that the great increase in the yield of long-term domestic bonds has "provoked a more prudent posture" on the part of the monetary authorities. On August 3, the Bank of Spain cautiously lowered its key intervention to 7.35 per cent from 7.50 per cent, its first cut since May 13.

There are several factors behind the Spanish economy's incapacity to create jobs, including labour costs. If the OECD had an "oil shock" in the 1970s, Spain had both that and a "salaries shock" on top of it. Rises in wages continued through the 1980s and up to December last year when, despite a 3.5 per cent fall in registered employment during 1993, real wages rose by 1.5 per cent compared with December 1992.



Between 1987-1992 Spain registered a 42.2 per cent leap in unit labour costs, measured in domestic currency terms, against an average rise of 12.8 per cent in the Benelux nations, and Denmark, France and Germany. The OECD said in its 1994 report on the Spanish economy that "in order to keep the wage bill under control, firms are obliged to shed labour massively when there is a cyclical or structural shock."

The rigidity of Spain's labour market legislation is viewed as another chief cause behind joblessness. Employers are deterred from increasing their labour force by rulings which are based on General Franco's job-for-life model. The growth of trade union muscle since democracy was restored after Franco's death in 1975, as well as the social security burden placed on employers, has helped to create an environment unfriendly to business.

A third factor is the paucity of vocational training in Spain, together with a mismatch between the supply of labour and the working positions that demand to be filled. According to the OECD only 16 per cent of Spain's total 1990-1992 expenditure on unemployment went on training and job creation schemes. Average EU spending on such programmes represents 34 per cent of unemployment-linked expenditure.

The domestic recession, that began to bite extremely deeply in 1993 when the economy shrank by 1 per cent, has finally had an impact on wage increases and on unit labour costs. Wage agreements this year represent average salary increases of little more than 3 per cent, against a year-on-year headline inflation rate of 4.7 per cent in June, and unit labour costs have risen by about 2 per cent.

The rigidities of the labour market have been addressed by a reform of the existing legislation approved by parliament this year. The overhaul, which made hiring and firing rules more flexible and cheaper, and which allowed for part-time employment and altered guidelines on job mobility and job classifications, was viewed as timid by employers and as Draconian by trade unions.

The labour market reforms also gave an impetus to apprenticeship and youth employment schemes. These, together with a national programme for vocational training which was the outcome of a government agreement last year with employers organisations and the unions, seek to correct the employment mismatch and to make inroads into the very high jobless rate among first-time job seekers.

A start has been made in tackling the most searing feature of Spain's structural imbalances but it is only a start. Madrid's Complutense University's ICAE report ominously asserts that the domestic jobless problem is "of such a magnitude that a substantial reduction of the unemployment rate, to a level similar to that of the more advanced European nations, is not feasible in either the short or in the medium-term."

Tom Burns on the banking upsets

After Banesto, a period of hectic change

It is hardly surprising that the press and other media should have concentrated so heavily on bankers and banks in Spain during 1994.

Seldom can a domestic banking system have undergone such a change in so short a space of time.

Over a hectic six months, the country's highest profile banker, Banesto chairman Mario Conde, left his job, a bevy of top Banco Bilbao Vizcaya, BBV, executives switched employers, and the power of Banco Santander chairman Emilio Botin increased greatly.

A former Bank of Spain governor spent two weeks in jail and his successor gained an autonomy that other central bank heads, excepting the Bundesbank, might well envy.

Mr Conde's departure from Banesto triggered Mr Botin's rise to become the nation's number one private banker. On December 28 last year, the Bank of Spain dismissed Mr Conde, together with his entire board, after its inspectors had discovered that it had grossly overvalued Banesto's assets, and on April 25 Santander's Mr Botin paid US$2.05bn to acquire the troubled group in Spain's biggest domestic takeover.


Emilio Botin: Spain's number one private banker

Cash-rich Santander outbid BBV to gain the Banesto prize and in so doing ruined its rival's ambitions to become the top Spanish bank. Mr Botin twisted the knife by hiring an entire BBV senior management team that had been seconded to run Banesto after its intervention in a caretaker capacity at the request of the Bank of Spain.

Events were just as fast-paced at the Bank of Spain. At the same time as the Bank's governor Luis Angel Rojo was successfully concluding the Banesto rescue package by preparing a public auction in which Santander was to deliver its winning takeover bid, the headlines were devoted to a tax evasion scandal involving his predecessor Mariano Rubio.

There was further irony in the approval by parliament of a Bank of Spain autonomy law on the very day when Mr Rubio was released from prison on surety of $72,500. Understandably, the politicians built in last-minute additions to the autonomy law that established strict rulings to prevent the illicit enrichment of the bank's officials.

In line with the Maastricht treaty's provisions for central bank autonomy, Mr Rojo has the responsibility for setting monetary policy and becomes the effective guardian of price stability.

The days when the governor was virtually nominated in rotation by the leading private banks are long gone and will never return.

The more recent days when the governor was appointed by the government to bail it out of trouble are also over.

Under the terms of the autonomy law, parliament votes the governor into the job for a six-year period and the Bank of Spain is prohibited from financing the treasury and other public institutions.

The banking sector that Mr Rojo supervises is very different from the one that he first dealt with just two years ago when he succeeded the now disgraced Mr Rubio.

The most visible change is that whereas before there were several leading domestic banks, each of which could claim superiority over the others in some area of the financial business, now there is the Santander-Banesto group and the rest.

The takeover represents the culmination, at least for the time being, of a banking merger process that began in 1988 when Banco Bilbao and Banco Vizcaya joined forces to form BBV and continued three years later when Banco Central and Banco Hispanoamericano merged to form Banco Central Hispano, BCH. Subsequently the state-controlled banking institutions were pooled together under their flagship Banco Exterior to form Argentaria, a banking corporation which was partially privatised in 1993.

Santander stood aside from the merger process and instead turned its attentions abroad, buying more than 20 per cent of First Fidelity in the US and acquiring a 10 per cent stake in Royal Bank of Scotland.

It also built up its merchant banking unit, Santander de Negocios, now renamed Santander Investment, into a strong force in Latin America's emerging markets.

At the time of the Banesto acquisition Santander's foreign-based business was responsible for close to 50 per cent of its healthy net annual profits.

Santander's forceful return to Spain, where with one acquisitive stroke it has become the dominant participant in the domestic market, was foreshadowed by a series of aggressive strategies designed to weaken the margins of its rivals, and not least those of Banesto its eventual target.

It introduced a high interest-bearing current account one year, an innovative unit trust savings scheme another year and a home loan product the next.

Now that it has achieved the dominance it sought, Santander looks destined to make a more lasting impact on the domestic sector by altering the traditional banking model in Spain, which, much on the lines of German institutions, involves close ties between the country's banks and its leading industries.

Turkey: it can weather shocks, says **Andrew Finkel**

Hidden reserves of strength

On a sunny weekend last spring, the combined retail muscle of the Turkish automobile industry pulled together to sell exactly one new car. This compares with previous figures of more than 1,000 a day. After a devaluation crisis in January, and an austerity package in April, the Turkish economy appeared well on its knees.

Or was it? With an ingenious bit of fixing, the two leading car manufacturers, Renault and Tofas (Turkish Fiat), persuaded the government to lower VAT. After some judicious price-cutting of their own, they managed by the end of the summer to offload their entire back stock.

If Turkey's present difficulties prove anything, it is the ability of the country to weather incredible shocks. First quarter growth figures of 3.5 per cent turned into a second quarter decline of 10.6 per cent, a spread of 14 per cent. Yet, part of the country's reserves of strength and true liquidity are hidden in an unregistered economy estimated to be at least half the size of the one on the books. Although Turkish industry may not be the world's most competitive (the World Economic Forum rates it 29th), low and still falling wage levels means it is not in terrible shape.

"It's not the economy that's ill; it's the total collapse of anything related to the state," according to Professor Asaf Savas Akat, economic adviser to the fringe New Democracy Party. His is not the eternal lament of a private sector which wants the government off its back, but the increasingly common exasperation at the inability of successive governments to get on with fiscal reform. Even if it were leaner, Turkish industry would still have trouble competing with a state apparatus hungry to finance even its current expenditure.

Clear indication of the problem is not just the public sector borrowing requirement (PSBR) ratio (17.5 per cent of GNP last year) but the exorbitant price which the government paid to re-enter the domestic debt market following this year's 60 per cent devaluation of the Turkish lira. Recently redeemed T-bills offered a 50 per cent real return over three months (equivalent to Libor plus 195!) – a figure better then commercial rates.

This in effect limits corporate lending to all but short-term trade finance. "The good companies don't borrow, and who wants to lend to the others?" said one western member of Istanbul's banking community.

Anxious to restore Turkey's international standing Tansu Ciller, Turkey's prime minister, has gone through the procedure of applying for a largely symbolic standby arrangement with the IMF for $509.3m as an endorsement of the economic package she introduced on April 5.

Working in Turkey's favour is that reduced domestic demand for imports along with the return on short-term government paper has eased the trade position. Foreign reserves have recovered from the central bank's $3bn battle to uphold the value of the lira. Currency stability is regarded as important in the fight against three-figure inflation, and the lira has survived a drop in the terms of new Treasury auctions. Although 12-month inflation figures are still at 126.5 per cent, this is partly the result of the one-off price rises in state-controlled goods last April. There is some evidence that the domestic doldrums may have at last detoxified the market of its inflationary expectations.

Short-term outstanding external debt has also declined by roughly a third to $12bn. This is something of a mixed blessing, signalling as it does the demise of a strategy of "hot money" through which foreign exchange was lured into Turkish lira. It does mean, however, that Turkey is unlikely to renege on its foreign commitments and thus lose its IMF seal of approval. Standard and Poor's, whose downgrading of Turkish debt helped spark off this year's crisis, no longer retains Turkey on its credit watch.

The result is that the Turkish government has rolled over its debts on the internal market. Given the lower value of the lira, the burden will be at a higher real cost as a percentage of GNP. About two thirds of targeted fiscal savings is through expenditure restraint and keeping budget allocations static.

Those negotiating Turkey's entry into customs union with the EU believe that the crisis must reinforce the good habits which the country will need to make closer integration a success.

This would in turn encourage much needed direct investment. If industrial assets continue to be devalued, then Turkey may well recover some of its attractiveness as an emerging market.

Much depends on whether the government has the will to undertake structural reform. This would include the privatisation or disposal of the wasteful state sector, the reform of the social security system, and also a permanent change in the structure of agricultural support prices. Another area of reform is the creation of a more efficient and equitable tax base.

While Turkey braces itself for another hard contraction of domestic demand, an election is not something that Mrs Ciller desires. Recent blips in the Turkish lira have more to do with the Central Bank trying to ease down interest rates then a widespread conviction in an early poll.

For all that, Mrs Ciller's position, and that of the coalition government with its mere three-seat majority, is far from strong.

The government has been forced to call by-elections on December 4 to fill 22 vacancies in the present parliament. Those caused by the expulsion from parliament of Kurdish nationalist MPs are likely to result in victories for the pro-Islamic Welfare Party.

This has established itself as a powerful alternative in the south-east of the country to the nationalists. In other contests, too, the government is likely to reap the ill effects of austerity measures.

Russia and the former Soviet Union states: **John Lloyd** reports

Painful legacy of the past

The former Soviet states have suffered, and are still suffering, a series of external and internal shocks more serious and crushing than any developed country has had to withstand since the second world war. They are reeling under these shocks: their economies – with the exception of the three small Baltic states of Estonia, Latvia and Lithuania – are still plunging because of them. There are signs, especially in Russia, of improvements, but not yet of sustained recovery.

These shocks were: the steady degradation of the Soviet economic system, already evident in the early 1980s and made worse by the misconceived economic reforms of Mikhail Gorbachev; the steady drop in energy – especially oil – output, which continues; the ending of the Comecon trading bloc in 1990; the multiple declarations of national independence at the end of 1991 which exacerbated the already-evident breaking of industrial and economic links between the 15 Soviet republics; the creation of separate currencies, forced on most republics by Russia's decision to make the rouble a national currency; the ending or curtailing of Russian energy and other subsidies to the other republics; and the inability or unwillingness of the new national elites to introduce market economic institutions and practices, even as they can no longer depend on the old collective institutions.

These have been common in one form or another to all of the states: in some cases, they have been exacerbated by civil wars – affecting all three of the transcaucasian states of Armenia, Azerbaijan and Georgia; Tajikistan in Central Asia; the transdnestrian region of Moldova; and the north Caucasian republics of Russia, especially Chechnya. In these states and regions, economies have been ruined for a decade or more. Each has to cope with hundreds of thousands of refugees, and the state or regional governments are largely overwhelmed with day-to-day crises, unable to plan or rebuild.

Even in those states which conflict has not touched, the shocks described above have been numbing in their effects. Industrial output in the most developed states – Russia, Ukraine, Belarus – has plunged by at least a half (on official figures, which are unreliable: nevertheless the trend is clear and is dramatic). Inflation is endemic – and where curbed, as it is in Russia and has been in Ukraine – the drop in its levels is achieved by simple axeing of government commitments and programmes which include paying workers their wages.

There are signs of change. The Baltic states, which now dislike the reminder that they are "former Soviet" republics, have wholly (Estonia) or partially (Lithuania) succeeded in stabilising their economies and have begun the road towards integration into the European Union which their leaderships have unambiguously identified as their main goal. In Estonia's case, this was achieved by text book "shock therapy" – indexing the kroon to the D-Mark overnight two years ago, and rendering it illegal to issue credits to fund a budget deficit. The tiny state now has the highest growth levels in Europe – though its economy was already the richest of the former Soviet states and it had relatively little heavy industry.

Russia is the critical case. When, in spring of 1994, the government agreed with the IMF to bring inflation down to 7 per cent a month this year and to keep the budget deficit under 10 per cent of GNP in return for the $1.5bn second tranche of the systemic transformation facility, it seemed a commitment which would never stand the test of time and of the pressures of the manifold lobbies which have in the past derailed efforts – including those of Yegor Gaidar, the former acting prime minister – to keep the economy on track.

However, as of early September, the government has kept to its pledge – bringing inflation down from more than 20 per cent a month in January to under 5 per cent in July, and claiming to be running a budget deficit of under 10 per cent on an annualised basis. Encouraged by these signs of monetary stability, foreign portfolio investment in the Russian privatisation process is climbing very sharply.

This impressive feat – which has reversed the conventional view of Victor Chernomyrdin, the prime minister, from being one of a barely-altered Soviet "red director" to a politician determined to institute market reforms – has not been achieved without pain, nor is it seen as having definitively shifted the Russian economy on to a reform path.

The government has cut down heavily on credits, but this has meant that workers have not been paid, investment has been postponed and debts between the enterprises have rocketed to vast levels. At the same time, there is little sign of large-scale strategic investment, either by Russian companies or by foreigners – though the large corporations are increasingly making at least token investment, while ABB Brown Boveri, the power engineering company, has taken a (still all but unique) decision to locate much of its production in eastern Europe and the former Soviet Union.

Russia thus hovers between the past and the future, with no unambiguous sign that it is prepared to move one way or the other.

The size of Russia, and its virtual monopoly of oil and gas production, means that all other republics are hugely dependent upon it. This fact of life has impressed itself on the elites of Ukraine and Belarus, the two other Slav states, and they have now produced a political leadership anxious for close ties with Russia and for a continuation of supplies of cheap energy.

Ukraine's inability to grasp the nettle of reform initially appeared to mean stability – but in the past year has seen the country's economy sink rapidly to the point where much of industry is idle at least part of the time, the currency is chronically prone to inflation and the vast Donbass coal region sinks under debt.

For the IMF and for the World Bank, the success of reforms in the former Soviet states is critical to their strategic choices of how reforms should be conducted elsewhere. Both institutions, especially the Fund, have been heavily criticised for offering an "off-the-shelf" prescription emphasising monetary stability and budgetary discipline: but the critics have yet to propose a convincing alternative and the Fund has been strengthened by the acceptance by the Chernomyrdin government of its strategy for this year, and its success so far in carrying it through.

The reform process here remains the most important in the world: and it remains among the most uncertain.

Eastern Europe's transformation has been messy, writes **Anthony Robinson**

Fledglings flex their wings

The greatest conundrum facing 450m people when communism collapsed in eastern and central Europe five years ago was how to create capitalism without capital. It seemed an impossible task which became even more difficult when the demise of the old Comecon trading network led to a collapse in foreign trade between the former communist states.

Five years on, however, it has become increasingly clear that the end of the cold war and "constructive destruction" of the old centrally-planned economies has liberated capital and resources on a huge scale. Nearly 60 per cent of the Polish economy is now in the private sector with the Czech Republic and other "fast track" reformers of central Europe approaching similar levels. Domestic capital and savings, not foreign investment, are emerging as the principal source of finance throughout the region as private companies re-invest profits, banks re-capitalise to improve their lending base and embryonic financial institutions such as pension funds and insurance companies compete for the savings of higher income groups emerging from greater income differentials.

Inevitably, the process of economic transformation, still far from complete, has been messy as well as painful and often arbitrary and unfair. The Czechs pioneered mass privatisation through vouchers on a grand scale, enthusiastically followed by Russia, and all the former communist states have their own variant of a mass privatisation programme, flanked by trade sales and other negotiated disposals, mainly to foreign investors.

But a vast array of state-owned assets has been transmuted into private property without due process of law – stolen in plain English. All too often the new "owners" turn out to be former communist nomenklatura factory owners or party officials with the right connections. If the early French socialist thinker Proudhon were still alive he might well have modified his famous dictum that property is theft to read something like this: "Socialist property is theft: the theft of socialist property creates capital."

Many of those wily enough to survive and prosper under the old regime have taken to capitalism like ducks to water. In many cases capital once acquired has been rapidly transferred into bank accounts and other assets abroad – well over $50bn is believed to have left the former Soviet Union by various channels over the past few years.

In practice, it is often used to provide offshore financing for deals within the former Soviet Union. Much is waiting to return as laundered, ostensibly legitimate, "foreign" investment. Victor Geraschenko, chairman of the Russian National bank, favours a form of amnesty to attract such funds back to Russia.

Increasingly, however, real new wealth is being created by entrepreneurs building up their own businesses from modest beginnings, not just the re-investment of capital acquired during the essentially one-off stage of "primitive capital accumulation".

The quickest returns have come from trade – a path blazed by the Poles who dominated illegal trading throughout the former Soviet bloc and jumped at the new opportunities opened up by convertibility of the zloty. Currency convertibility was a key element in Poland's January 1990 stabilisation programme and loomed large in similar market reform programmes throughout the bloc.

Increasing amounts of domestic capital are going into productive industry, although the bulk of such investment to date has come from western multinationals.

But for millions of individuals and families in the former Soviet bloc now free to engage fully in economic activity, the main opportunities to enter business with limited amounts of capital have come in the service sectors so neglected under central planning, but so vital for job creation.

Thousands of companies have been formed and millions of new jobs have been created over the past five years in retailing and wholesaling, banking and finance, insurance, marketing, media, advertising and communications, tourism and the like. They have not fully compensated for the loss of jobs in the old state industries and military establishments. Unemployment typically ranges from 10-15 per cent, except for the Czech Republic where service sector growth is highest and where artificially low wages have kept many under-employed on factory payrolls.

Meanwhile, mass privatisation programmes have created millions of small shareholders and the short-lived boom in share prices on the fledgling bourses of Warsaw, Prague and Budapest last year both attracted popular attention to the potential merits of share ownership and permitted the first quoted companies to raise cheap equity. The longer-term task of creating efficient banks and other financial institutions like insurance companies and pension funds is under way.

Poland, the Czech Republic, and Hungary are most advanced along the path to becoming "normal" market economies, but seemingly unlikely candidates such as Estonia, Slovenia and even Albania have shown in their differing ways how small economies can be swiftly turned around, given tight fiscal and monetary management, a modicum of technical advice and financial assistance, entrepreneurial flair and a handful of dedicated market reformers.

Poland and Bulgaria in particular have also benefited from successful debt reduction agreements which have reduced the burden of repayment and re-opened access to normal commercial borrowing and foreign equity investment. Prior to these agreements both countries were heavily dependent on help from the international financial institutions (IFIs) – especially the IMF and World Bank.

But as restructuring progresses and economic growth returns, reliance on the IFIs is falling as foreign equity investment and commercial bank operations become more available.

Japan and North America

Japan: the economy has matured since the roaring 80s, says William Dawkins

Roller-coaster levels out

The world's second largest economy, emerging from the longest recession since the war, has grown slower and more mature than it was in the roaring 1980s.

Japan's previous recessions came as the result of external shocks, which inflicted shallow downturns followed by steep recoveries. The latest downturn in the economy, following the collapse of a bubble of high asset prices at the turn of the decade, has its origins in several structural weaknesses. They suggest that this recovery will be gentler than previous ones.

Just as Japan's underlying rate of growth slowed after the 1970 oil shock and the early 1980s' downturns, so has this latest recession sapped a little of its economic vitality. The range of economic forecasts in Tokyo is for gross domestic product to recover from stagnation last year, to growth of something under 1 per cent or up to 2 per cent this year, setting to one or two points below the 1980s' average annual growth rate of 4.5 per cent.

Japan may only walk rather than run through this recovery, but few doubt that the worst is over. The main evidence for an upturn includes a 3.9 per cent annualised increase in GDP in the first quarter of this year, the best performance for three years. On top of this, the Bank of Japan's latest Tankan economic survey in May, the most reliable indicator of the short-term outlook, shows the first improvement in business confidence for five years.

Of course, the economy could well weaken in the summer, for the same reasons as last year. As in 1993, a government collapse has been followed by a steep rise in the yen.

But the latest yen appreciation was, at the time of writing, not as sharp as last summer's, while the forces supporting the economy are more widespread this year than they were last.

Four government spending packages, totalling Y45,000bn over the past two years, plus a Y6,000bn income tax rebate this year, have started to take effect. This is shown in strong rises in housing starts, private consumption and imports.

The yen's sharp rise may squeeze industry's export earnings, but it has also helped spur domestic demand, shown in a 7.6 per cent rise in imports in the first six months of the year and a 5.8 per cent rise in private consumption in the first quarter.

Japanese consumers, enriched by their strong currency, have flocked to discount stores, which are often loaded with cheap imported goods.

Industry has at the same time started to reduce its vast inventories of unsold goods, while industrial production has shown signs of improvement. Output showed an apparently encouraging rise during the first three months of this year by comparison with the last quarter of 1993. Individual monthly figures have switched direction every month since last August, so the upturn in production is not yet conclusive.

Looking beyond the immediate problems, the later stages of the recovery may be constrained by three structural problems, deflation, surplus industrial capacity and the weakness of the financial system.

The flood of cheap imports has helped depress prices, so that the official measure of consumer price inflation is just under 1 per cent. This does not, however, include discount stores, so underlying consumer price inflation may be more in line with the 2 per cent decline in wholesale prices, in which case Japan's real interest rates look higher than those of the US. An additional danger is that falling prices might squeeze company profits more than they stimulate demand.

Surplus capacity will at the same time force the industries that used to be the engines of Japan's economy to hold down wage increases, new employment and investment in the mature domestic market. The car industry alone, for example, still has surplus production capacity of 2m vehicles, equivalent to the entire car market of Britain or France. The electronics, shipbuilding, engineering and financial services industries are also going into this recovery with excess staff.

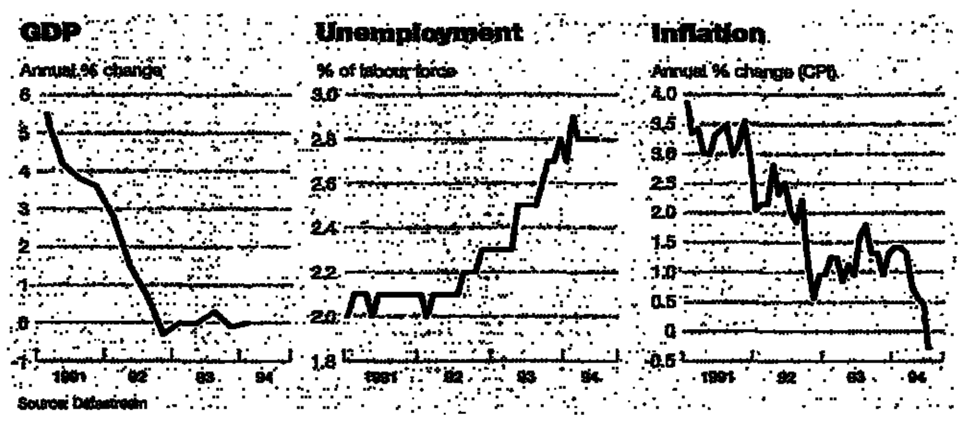
This means that Japanese companies will continue, as they did in the recession, to curb recruitment and to encourage early retirement, as a way to continue bringing down their break-even points without breaking the taboo against heavy redundancies.

They can also be expected to accelerate the shift in capacity to cheaper production sites in other Asian countries, the fastest growing destination for new Japanese investment and exports.

According to a recent survey by the ministry of international trade and industry, Japanese companies will increase capital investment by 1.1 per cent in the year to next March, yet most of this new cash will go to the rest of Asia, which will double its share of Japan's overall foreign investment to 37.5 per cent.

The financial system, meanwhile, is making slow headway in running down the burden of bad debts, inherited from the boom in lending on the back of over-valued property during the sharp rise in asset values of the late 1980s. Since then, commercial property prices have fallen by up to 50 per cent and have shown no clear sign yet of recovery.

The fear is the experience has made banks so cautious over extending new loans that the economic recovery may prove hard to finance. This is borne out by the weak performance of the benchmark indicator of money supply, M2 plus certificates of deposit. It turned the corner early last year, from a three-year decline, but grew at a mere 1.5 per cent in the year to June, well below the 5 per cent annual growth which many economists believe is needed to fund a revival.



Source: Datastream

Profile: Yasushi Mieno

Man who burst the bubble

Few individuals have played a more central role in the industrialised world's harsh transition from the boom years of the 1980s to the sluggish 1990s than the outgoing governor of Japan's central bank, Yasushi Mieno.

Mr Mieno's five-year term, which expires on December 16, has been perhaps the most challenging of any in the 120-year history of the Bank of Japan. His tenure began at the tail-end of the extraordinary explosion in Japanese asset prices that came to be called the "Bubble Era". It ends as the country emerges from its longest post-war recession, a recession induced by a monetary policy designed to burst the bubble.

That policy, over which Mr Mieno presided, earned him the opprobrium of many in Japanese business and politics, but they marked an important stage in the bank's development in gaining for itself greater freedom over its actions, not just from the iron grip of the ministry of finance, but from the demands of international economic policy.

Mr Mieno's curriculum vitae suggests a life as the model central banker. His working life has been spent at the Bank of Japan, including a stint in New York, and a period managing one of the bank's regional branches. It culminated in his elevation to the governorship in 1989. But behind the usual central banker's stony countenance and tortuous syntax, lies a more complex and colourful character.

Born in 1924, Mr Mieno moved to Manchuria at an early age when his father was transferred to the Manchuria Railroad Corporation. When his family returned to Japan during the war, the young son worked as a soap, butter and clothing trader to support them. He won a place at the prestigious Tokyo University and, armed with a law degree, joined the Bank of Japan in 1947. His ascent was steady – 42 years through all the bank's main departments.

His inheritance on assuming the governorship in 1989 could hardly have been more troubled. The economy was overheating, asset prices were soaring and Mr Mieno immediately applied the brakes. Within weeks of his taking office the BoJ raised interest rates by half a percentage point, a move that provoked a damaging row with the ministry of finance over the direction of monetary policy. The new governor was anxious to correct what many in the bank perceived to be the errors of his predecessor in loosening policy too far. The MoF, concerned about the fallout in the financial markets, resisted Mr Mieno's pressure for an immediate interest rate increase, but gave way, sanctioning two further increases in rates over the next eight months.

The effects were startling. The Nikkei 225 Index, which had ballooned to a peak of nearly 39,000 the month Mr Mieno took office, dropped like a stone, falling by more than 60 per cent in the next four years. Land prices in Tokyo fell by two-thirds in the same period. While Mr Mieno may have been delighted at the dramatic success of his bubble-bursting policy, the damage done to the real economy was also unprecedented. Output entered a four-year recession that is only just ending, the worst in the nation's postwar history.

Though the monetary siege was lifted relatively quickly, with rapid cuts in interest rates beginning in 1991, the economy and financial markets continued to plunge and criticism of Mr Mieno increased. Despite the loosening of policy – the official discount rate was cut to a record low last September – the economy only began a painfully slow recovery this year, an upturn that remains weak and uncertain.

Yet, Mr Mieno maintains the harsh medicine was vital to restoring Japan's long-term prospects and is unapologetic. Despite the pain inflicted on the country, his term of office saw the stature of the bank, vis-a-vis its more senior partner, the ministry of finance, rise sharply, as it grew in independence.

More important, Mr Mieno's term of office has represented a fundamental shift in the priorities of Japanese economic policy. Japan's emergence in the 1970s and 1980s as the world's second economic power brought with it at home the perception of global economic responsibilities that many policy-makers felt had to be fulfilled.

Most notably, many Japanese politicians and bureaucrats believed that the country's principal responsibility was to operate its economic policies within a framework of international co-operation.

This view reached its apotheosis with the Louvre and Plaza accords of the mid-1980s, when Japanese policy makers bowed to the demands of the US Treasury and Federal Reserve and agreed to establish a domestic policy framework consistent with the needs of the dollar. In consequence, Japanese monetary policy shifted back and forth in line with the gyrations of the US currency.

Mr Mieno represents a very different school of thought that argues that, while international monetary co-operation is desirable, it should remain secondary to domestic monetary considerations. If it is in the best interests of the Japanese economy to cut interest rates, then cut rates. But under Mr Mieno they have not been cut to meet broader global demands based on exchange rate movements and trade flows.

The consequences of this view were most powerfully on display this year, when Mr Mieno refused to cut Japanese interest rates to prevent the yen rising against the dollar. He repeatedly argued that Japanese monetary policy was sufficiently relaxed for Japanese domestic considerations – a further cut in interest rates was not in Japan's own interests.

That view, which also says that, in the longer run, when countries follow policies that are first in their own interests they benefit the world economy, now holds sway not just in Japanese economic policy, but in many countries. It owes much to the economic philosophy of Mr Mieno.

Gerard Baker

United States: **George Graham** assesses the road ahead for the economy

Hopes high for a soft landing

Over the first half of this year, the US Federal Reserve has reversed a long trend of falling interest rates with five successive rate increases. During this period the US economy continued to grow at a pace that, while not on a par with the more robust booms of the past, was still undeniably healthy.

Announcing its move on August 16, when it raised the discount rate from 3½ to 4 per cent and the Federal funds rate from 4¼ to 4¾ per cent, the Fed said it was responding to "evidence of continuing strength in the economic expansion and high levels of resource utilisation".

"The actions are intended to keep inflationary pressures contained, and thereby foster sustainable economic growth," the Fed added.

There has been very little challenge to the Fed's decision to tighten monetary policy. After all, with growth running at an annualised rate of more than 6 per cent in the fourth quarter, it was hard to quarrel with Alan Greenspan, the Fed chairman, when he told Congress that "there seemed no reasonable purpose in maintaining the demonstrably stimulative level of short-term interest rates held throughout 1993". Indeed, some other Fed officials come close to saying that they made a mistake by lowering interest rates too much in 1992 and 1993.

Assessing the need for further monetary tightening, however, is a more difficult calculation, and one that hinges on one's assessment of the US economy's future path.

One scenario, espoused by some private sector economists, sees the development of a typical mature expansion, in which the economy continues to grow faster than its potential, leading to pressure on capacity and wages. This in turn would lead to faster inflation, a sharp increase in short-term interest rates and, eventually, a recession.

Another version, adopted by the Clinton administration and probably by a majority of private sector economists, sees a softer landing. In this version of events, the economy is already running out of steam, so that growth will slow down and inflationary pressures diminish without any need for the Fed to raise interest rates further.

Although the White House has carefully avoided criticising the Fed for its latest interest rate increases, some Democratic senators have not been so cautious, and have accused Mr Greenspan of killing off the expansion prematurely.

Somewhere between the two scenarios is the Congressional Budget Office, which sees the economy outrunning its potential to a modest extent, triggering some further tightening by the Fed to head off inflation, but no crash landing.

Translated into forecasts for growth and inflation in 1994 and 1995, the disagreement is not large.

While the administration sees real gross domestic product growing at 3.0 per cent this year, CBO forecasts 3.6 per cent growth. Both expect 2.7 per cent growth in 1995.

This is close to the range compiled by the Fed from information provided by the members of central board and the presidents of the regional Federal Reserve banks, whose "central tendency" is real GDP growth of 3 to 3¼ per cent in 1994 and 2¼ to 3¾ per cent in 1995. Nor is there wide disagreement on consumer price inflation. The administration expects 2.9 per cent this year to CBO's 2.8 per cent, within the Fed's "central tendency" of 2¾ to 3 per cent. Both predict 3.2 per cent inflation in 1995, again within the Fed's range of 2¾ to 3½ per cent.

The principal objection to this miraculously soft landing, with no spike in inflation and no sharp recession, is that it has never happened before.

Although the Fed can claim to have taken pre-emptive action before inflation started to show up in the price indices, the strains on industrial capacity and on the labour market which caused it to act may not be easily forestalled.

The industrial capacity utilisation rate is now running above 83 per cent, a level which in the past has signalled faster inflation in goods prices – although these make up only a little over 20 per cent of the consumer price index if food and energy, prices of which are not dictated by capacity use, are excluded.

At the same time, job creation at a rate of 285,000 a month in the first half of the year has lowered the unemployment rate to 6.1 per cent.

Most US economists and policy-makers regard this as being at least very close to the economy's natural rate, accounted for by structural problems rather than by the ups and downs of the business cycle.

"Some people think we've passed it, some people think we have a little way to go. Very few people think we're very far from it," said Alan Blinder, vice-chairman of the Fed. Other Fed governors say they are comfortable with the notion of a rate of around 6.25 per cent.

"I wouldn't quarrel with someone who said 6.0, but 5 is low and 7 is high," said one.

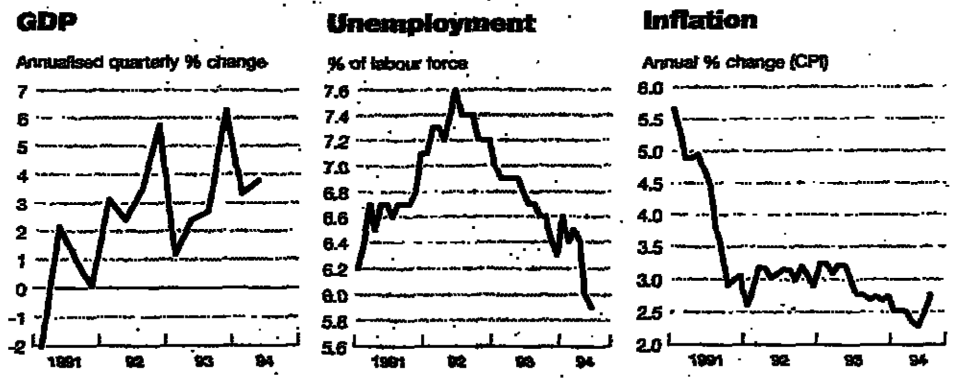
That implies that unemployment in the US has already shrunk to the point where any further decline could trigger pressure on wages and a rise in inflation, and so justifies the Fed's recent decision to continue tightening interest rates.

Some economists, however, say there may be more slack in the labour market than this analysis of the natural rate would suggest. They point to indicators such as the volume of new jobs advertised, which has risen much less than in previous expansions.

One element which has not affected the US economy nearly as much as economists predicted a year ago is the Clinton administration's deficit reduction programme passed in the 1993 budget. Although the budget deficit has fallen beyond the White House's wildest dreams – CBO projects $202bn, or 3.0 per cent of GDP, in 1994 and $162bn, or 2.3 per cent of GDP in 1995 – this fiscal contraction did not hold growth down to any noticeable degree.

The picture may be less promising for the future. In the absence of severe action to curb government spending, particularly on medical programmes such as Medicare, which provides health insurance to the elderly, CBO sees the deficit starting to climb again in 1996, to reach 3.6 per cent of GDP in 2004.

"There is no reason to assume that the trend will be reversed after 2004 unless policies are changed," CBO warns.



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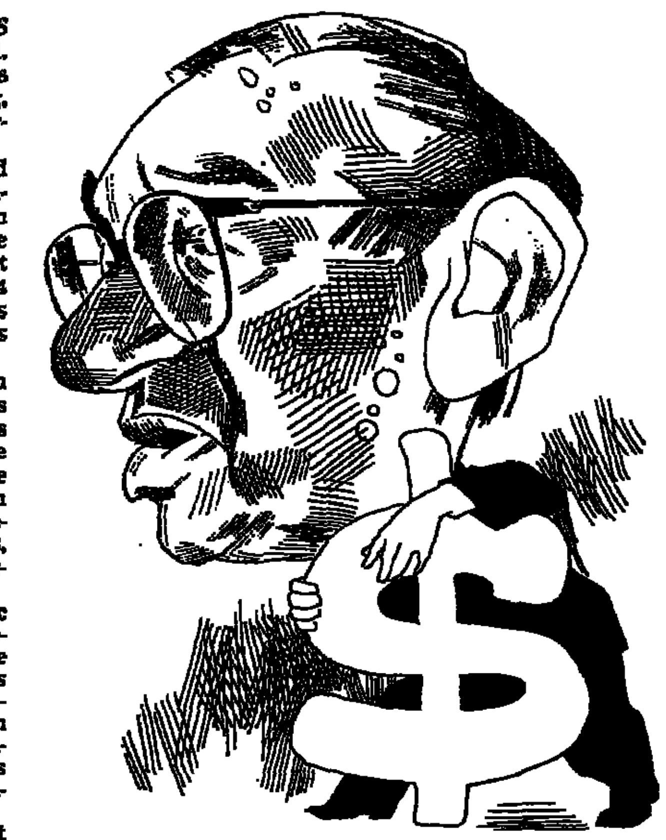


Profile: ALAN GREENSPAN

America's Teflon economist

As chairman of the US Federal Reserve Board, Alan Greenspan has enjoyed an unusually long, five-year streak of lower interests.

But in February, the Fed changed direction. By mid-August, it had raised short-term interest rates in five separate stages, lifting the discount rate by a percentage point to 4 per cent and the federal funds rate by 1¾ percentage points to 4¾ per cent.

The Fed chairman's position is lonelier when interest rates are rising, and Mr Greenspan's reputation was all the more firmly in the balance because of the sharp rise in long-term interest rates, and the corresponding fall in share prices, which the Fed's reversal triggered.

Stranded by the erratic movements of monetary aggregates, and convinced that the consumer price index provides only an erratic and tardy reading of inflation, Mr Greenspan has been compelled to scrutinise an eclectic mix of statistics to develop his reading of inflationary pressures.

Mr Greenspan's gradualist policy of tightening in small increments was accused of inflicting a water torture on the markets, which were constantly anticipating the next small rise in interest rates.

Meanwhile, the Fed chairman was portrayed in a much-criticised book on President Clinton's economic policy by Bob Woodward, the Washington Post reporter, as having struck a Mephistophelian bargain with Mr Clinton, convincing the president that if he cut the budget deficit long-term interest rates would fall.

At moments, Mr Greenspan appeared in danger of losing the label William Seidman, the sharp-tongued former chairman of Federal Deposit Insurance Corporation, had once given him: "the only Teflon economist I know."

Yet at the same time, decision-making within the Fed has appeared to move out of the sole control of the chairman and into a more collegiate process involving the other members of the Federal Open Market Committee (FOMC).

This committee, comprising the six central governors and a rotating sample of the presidents of the 12 regional Federal Reserve banks, meets every six to eight weeks, and sets the overall framework for monetary policy.

In the past, the FOMC used to recommend a "symmetric" stance, meaning rates should stay the same, or an "asymmetric" stance, opening the way to a rise or a fall in interest rates; the actual decision to move was left to the Fed chairman, acting between committee meetings.

> Decision-making within the Fed has appeared to move out of the sole control of the chairman and into a more collegiate process

This year, however, the FOMC has not only raised interest rates on the day of its meetings, it has also announced the moves publicly.

Some of the regional Fed presidents, too, have begun to speak out more openly about their monetary policy views.

"In terms of the management of monetary policy, Greenspan's style has led to the democratisation of the Federal Reserve policy process," wrote Manuel Johnson, who served as vice-chairman under Mr Greenspan and his predecessor, Paul Volcker, in a recent article in the magazine International Economy.

With most economists now convinced that the economy is gliding into a soft landing, Mr Greenspan is now getting more credit for his monetary engineering. Mr Johnson, indeed, says he is "within striking distance of becoming one of the most successful chairmen in the history of the Federal Reserve".

Mr Greenspan, meanwhile, remains as enigmatic as ever after seven years in the job. He appeared to take it as a compliment at one recent hearing on Capitol Hill when a member said he was "worse than the State Department" in his ability to avoid answering the question.

He once kept a dinner gathering of Washington economists on tenterhooks for an entire evening, waiting for some hint of his thinking on monetary policy, while he regaled them with a discourse on the effects of falling transportation costs on world trade.

Yet Mr Greenspan, who studied music at the Juilliard School in New York and played bass clarinet in a jazz band, is quite a socialite, playing weekly tennis games with Treasury Secretary Lloyd Bentsen and featuring prominently on the Washington cocktail circuit.

With only two years to go before his term expires, however, it is his relationship with Alan Blinder, the Princeton economist appointed by Mr Clinton to be vice-chairman, which is under most scrutiny.

At a recent conference in Jackson Hole, Wyoming, sponsored by the Federal Reserve bank of Kansas City, Mr Greenspan appeared to wince when Mr Blinder declared: "In my view, central banks through macroeconomic policies do have a role to play in reducing unemployment."

That may not represent a radical disagreement with Mr Greenspan. Mr Blinder insisted that this role was in the short term, and that macroeconomic policy had nothing to do with the unemployment rate five or 10 years out. Mr Greenspan, for his part, has told visitors he sees the task of the central bank as promoting economic growth and not only controlling inflation.

Moreover, there appears to be no disagreement between the two on current monetary policy, at least in the US: Mr Greenspan would never be as outspoken as Mr Blinder was in his criticism of European monetary policy.

But Mr Blinder may have to learn some of Mr Greenspan's discretion if he is to take over the chairmanship in 1996.

George Graham

Canada: **Bernard Simon** finds the outlook disturbing

Deficit overshadows prospects

Canada's economic prospects look good, bad or middling, depending from which angle one chooses to view them.

The news could hardly be better on the inflation front. The consumer price index has settled on a plateau, and is expected to rise by no more than 2-3 per cent in 1995.

Much of the credit goes to tight monetary policies pursued by the Bank of Canada between 1988 and 1991, which took the wind out of domestic demand. The latest brake on prices is a steep fall in tobacco taxes, designed to stamp out cigarette smuggling across the US-Canada border.

Wage settlements are at their lowest level in decades. Workers have considered themselves lucky these days to get any wage increase at all, although there are signs that a strengthening economy is starting to loosen employers' purse-strings.

Meanwhile, double-digit unemployment has helped many companies introduce more flexible work practices. Productivity has soared.

A weakening currency has further reinforced Canadian companies' competitiveness. With the help of stronger metal and forest-products prices, exports rose to a record C$18.2bn in June 1994. Bank of Nova Scotia forecasts that the trade surplus will climb from C$9.5bn in 1993 to C$14bn this year and C$17.5bn in 1995.

But seen from another angle, Canada's economic outlook is disturbing. The federal government has failed over the past decade to meet its budget deficit targets. The shortfall for the year to March 31, 1994 was a record C$45.7bn, or 6.4 per cent of gross domestic product.

The 10 provinces, which piled up a combined debt of about C$230bn, are also battling to rein in their spending. Of the 10, Alberta has made the most progress, confidently forecasting a balanced budget by 1997. Its reward has been a credit rating matched only by fast-growing British Columbia.

Finance minister Paul Martin pledged last February to trim the federal deficit to C$39.7bn in the current fiscal year, and to 3 per cent of GDP by 1997-98.

But he faces an uphill struggle. Interest rates, and thus debt-service charges, have been higher than forecast this year. Ottawa is also moving more slowly than expected on social-security reforms, which are essential for any meaningful, long-term dent in government outlays.

The heavy debt burden casts a long shadow over Canada's prospects. Bank of Nova Scotia warned in late August that "nothing short of a tripling in the merchandise trade surplus would stem the erosion in Canada's external balance sheet, let alone begin to play down record foreign obligations."

Nervousness about the future of Quebec is the other cloud over the economy. Although the victory of the separatist Parti Quebecois in the francophone province's election will not necessarily lead to independence, the run-up to a referendum which the PQ has promised to hold in 1995 could unsettle many domestic and foreign investors.

The PQ has threatened not to co-operate with the federal government's drive to overhaul the unemployment insurance and welfare systems. Within Quebec, it generally favours more government involvement in the economy, including higher taxes.

"If there was no political uncertainty, our forecast of growth would be higher, and our interest rates would be lower," says John McCallum, Royal Bank of Canada's chief economist.

On balance, however, Mr McCallum and most other economists predict that positive forces will outweigh negative ones over the next few years. The Conference Board of Canada forecasts that real GDP growth will accelerate moderately from 2.7 per cent in 1993 to 3.3 per cent this year and 3.4 per cent in 1995.

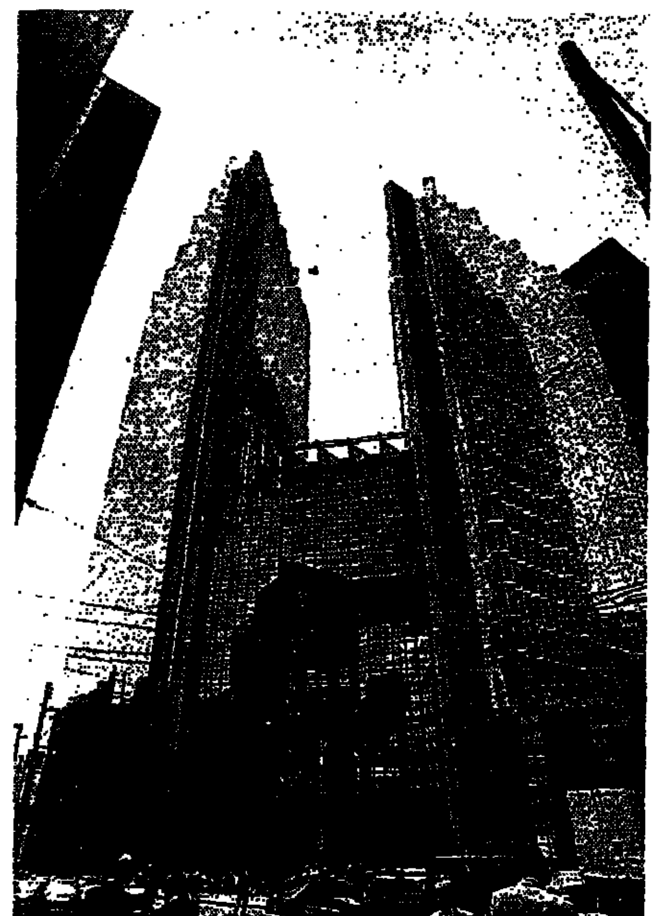
There could be sharp regional variations within these national averages. Royal Bank expects that British Columbia will enjoy a growth rate of more than 4 per cent next year, thanks to a continuing influx of migrants and strong pulp and paper prices. At the other end of the country, the collapse of the Atlantic fishery will hold Newfoundland's growth to less than 2 per cent, with one out of five people remaining out of work.

The growth numbers could hinge heavily on whether markets are more impressed by Canada's improved inflation and productivity performance, or by political upheavals.

Early this year, the gap between US and Canadian interest rates narrowed to its smallest in almost two decades. Canadian banks' prime lending rates were down to 5.5 per cent from a peak of 14.75 per cent in mid-1990. But as Quebec election jitters grew, the spread once again widened.

By late June, Canadian banks had raised their prime rate to 8 per cent and economists had begun to lower their 1994 and 1995 growth forecasts. Interest rates have subsequently moved lower again, but some strong and unpredictable gyrations could lie ahead.

Source: Datastream


Royal Bank of Canada: positives outweigh the negatives in its forecast

Developing countries

Africa: Tony Hawkins reports

Not growing, but recovering

After a dismal decade of stagnation and decline, sub-Saharan Africa can, at last, see a glimmer of light at the end of the tunnel. This is the result of firmer commodity prices, faster world trade growth, accelerating economic reforms in many countries, and the remarkably smooth political transition in South Africa.

The IMF forecasts growth of 3.4 per cent this year and 4.5 per cent in 1995 – well above the average 2.2 per cent over the past decade. However, this marginally brighter prospect should be seen in perspective. Africa is not growing, but recovering. In the past 10 years, per capita incomes fell 0.8 per cent a year. Nor is the recovery solidly based. Events in Sudan, Somalia and Rwanda, ongoing hostilities in Angola and the uneasy mood in Mozambique ahead of the October elections underscore its fragility. Tensions in Nigeria and Zaire could any day spill over into serious regional economic disruption.

A recent research paper by World Bank economists William Easterly and Ross Levine* explains the region's poor performance "statistically" in terms of poor education, political instability, weak infrastructure and financial systems, overvalued exchange rates, ethnic diversity and "troubles with neighbours".

This last effect is explained in terms of critical mass; the writers argue that if African neighbours act together to reform their economic policies, as indeed is happening increasingly now, there will be positive spillover and demonstration effects across national borders. This leads them to conclude, optimistically, that Africa's poor growth performance is "very much reversible", even if some adverse factors, such as poor education and infrastructural decay, will have long-lasting effects.

Factor into their analysis, a rejuvenated South African economy, and the potential for positive cross-border spillovers is considerable. At current exchange rates, following the 50 per cent devaluation of the CFA Franc in January, South Africa's GDP of $120bn falls not very short of that of the rest of sub-Saharan Africa – $135bn to $140bn. South Africa's economy, too, has stagnated for the past dozen years, and its return to growth of 4 per cent annually, which is not unrealistic, would be a significant boost for the regional economy, especially for southern Africa.

There are two distinct schools of thought on this. On one side, it is argued that the South Africans will be so preoccupied with their own internal problems – especially the successful implementation of their social advancement programme, the Reconstruction and Development Programme (RDP), that they will pay little attention to the rest of the region in the immediate future.

The alternative viewpoint holds that South Africa is on course to become the locomotive for much of sub-Saharan Africa, partly as a growing market for African primary products and some low-price manufactures, but more importantly as an exporter of capital, skills and services. It's no coincidence that South African firms are in the forefront of the privatisation of hotels and cement plants in Mozambique, the planned sell-off of Zambia Consolidated Copper Mines, involved in tourism in East Africa, manufacturing and mining in Botswana and Zimbabwe and the development of the region's financial infrastructure.

While western banks are pulling in their horns in Africa, Stanbic, South Africa's leading banking group, has expanded by taking over the African operations of ANZ Grindlays. Fledgling stock exchanges being set up all over the continent will benefit from South African advice and expertise. There is enormous, largely untapped potential for integrated tourism programmes linking destinations in Kenya, Malawi, Mauritius, Botswana and Zimbabwe with South Africa.

South Africa's Escom is becoming the hub of a regional energy grid, drawing on Pretoria's excess capacity but also electricity imports from Mozambique's Cahora Bassa, and South African investors may develop the Pande gas deposit in Mozambique.

The 1992 drought was a reminder of just how dependent southern Africa had become on South Africa's transport system, in spite of ambitious donor-funded programmes which were intended to reduce that dependence. The bulk of the maize and wheat needed came in through South Africa.

The trade numbers tell the same largely lopsided story. In 1992, South Africa had an estimated trade surplus of R13.8bn ($4.8bn) with the rest of Africa. Most of this was with its Southern African Customs

Fledgling stock exchanges will benefit from South African advice and expertise

Union (SACU) partners – Botswana, Lesotho, Swaziland and Namibia – which between them accounted for R9bn. But it also had sizeable trade surpluses with Zimbabwe, Zambia, Malawi, Mauritius and Mozambique.

While such a one-sided trade pattern – African exports to South Africa were worth R2.6bn compared with imports of R16.4bn – is a cause of concern to both sides, it is likely to get worse rather than better. African countries are finding South African products to be cheaper (in some cases), often more appropriate, and frequently more readily available with shorter lead times. The $225m Hartley Platinum development in Zimbabwe announced last month will source much of its capital equipment from South Africa.

At the same time, there is little appetite in South Africa itself for the rest of the region's goods, which are largely poor quality, and cannot compete with imports from Asia.

The signs are that the existing south-north trade and payments gap will widen, despite increased purchases of African primary goods - Kenyan coffee, Malawian tea, Botswana soda ash, Angolan oil, Zimbabwean tobacco and Zambian copper – by South African firms and increased tourist spending by holidaymakers from the south.

Southern Africa, in particular, has much to gain from closer co-operation in transport, energy, tourism and even education, but hopes of a regional free trade area and of broadening the existing rand monetary area to include other countries, are almost certainly premature. The hearts are willing, the rhetoric is there in spades, but harsh economic reality speaks otherwise. At the end of the day, few African leaders are prepared to surrender an ounce of what little of economic autonomy they have managed to salvage from bilateral and multilateral donors, and multinational corporations.

Whether South Africa's re-emergence will be the catalyst providing the neighbourly spillover for the rest of the region is highly problematic. President Mandela and his largely untried team have to prove that they can break the African mould, delivering the east Asian cocktail of rapid growth with improved equity, that has eluded the often-feeble efforts of the rest of the continent. History, and hard economic numbers are against them, but at the tail-end of a decade of wasted aid and often-ineffectual policy reform in sub-Saharan Africa, the new South Africa is the region's best bet.

** Africa's Growth Tragedy. William Easterly and Ross Levine. World Bank Research Papers, May 1994.*

South Africa: the crucial problem is government spending, says **Mark Suzman**

After apartheid, optimism grows

For most of the past decade, South African planners have been warning that without drastic policy changes in the political and economic arenas, the domestic economy was doomed to continue on a downward spiral of high inflation, low growth and stagnant employment.

Testifying to the accuracy of such predictions, South Africa's economic record over the past 10 years has been dismal, averaging growth of less than 1 per cent a year. At the same time, triggered by the combination of sustained political unrest, the loss of international confidence, and gross economic mismanagement by the government, inflation and government spending soared while investment, domestic savings and overall business confidence plunged.

Now that the political side of the equation has finally been resolved, however, there is widespread optimism in the country that the economic challenges can be tackled with equal success.

And with political change fortuitously coinciding with an upturn in the global business cycle, there is a widespread belief that South Africa can become an economic engine capable not only of pulling millions of its own citizens out of the mire of poverty, but acting as a catalyst for renewed growth in the region as well.

Unfortunately, however, the situation is not that simple. The distorted policies of the apartheid era have left a deep-seated and destructive economic legacy that will take years to resolve. The crucial problem remains government spending, which accounted for 21 per cent of GDP over the first half of 1994 – a figure double the norm in most developing Asian economies.

This extraordinarily high level of government involvement in the economy causes other problems, too. Funding the budget deficit, expected to be 6.6 per cent of GDP, diverts money from new fixed investment while continued spending by government intensifies inflationary pressures. The high level of government borrowing also means that gross domestic saving in the economy, essential to help fund new development, is at only 16 per cent of GDP.

Compounding the problem is the fact that the economy remains overwhelmingly dependent on commodity exports, which account for some 71 per cent of foreign exchange earnings. Although the government has been trying for some years to switch the focus to manufactured goods, it remains hampered by the fact that South Africa's economy is still highly protected, and many of its enterprises uncompetitive by global standards.

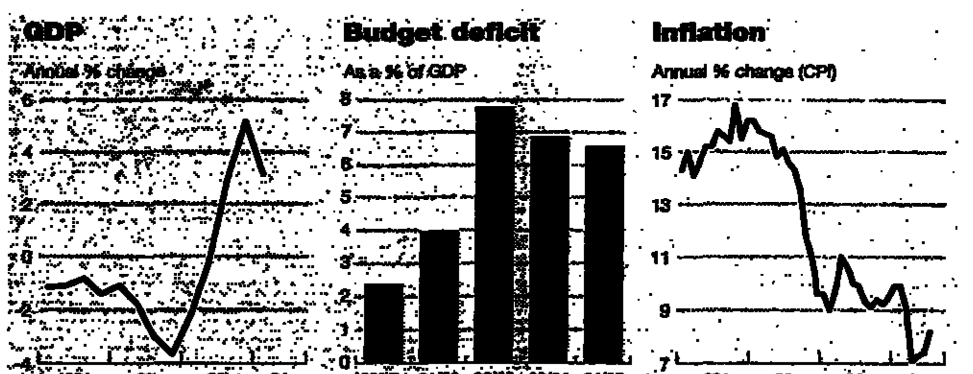
In addition, the maintenance of a relatively expensive workforce with a low skills base acts as a further obstacle to development. In an international competitiveness survey released by the World Economic Forum this month South Africa ranked 35th out of 41 countries and came last in the "people" category, assessing the educational and training levels of the general populace.

Despite all this, however, the underlying fact remains that the economic outlook for South Africa is better than it has been for decades. Growth this year is expected to be around 2.5 per cent, below the more optimistic forecasts made at the beginning of the year, but still up on 1993's 1.1 per cent, which itself followed four years of painful recession. Next year the figure is expected to reach between 3.5-4 per cent.

The consensus among most economists is that provided the government sticks to conservative fiscal and monetary policies, South Africa is capable of continuing to generate domestic growth of around 3.5 per cent for the next five years. But to achieve more than that, a significant inflow of foreign investment, bringing with it exposure to new international skills and technology denied to the country during its years of isolation, is desperately needed.

So far, the first condition seems to be met. Despite the immense political pressures on the ruling African National Congress to provide the populace with tangible benefits following the demise of apartheid, it has successfully resisted the temptation to undertake high spending, populist policies that would further destroy the economy's fragile base.

Indeed, in its public statements to date, including the June budget, the government has been a model of fiscal probity, stressing its commitment to reducing the budget deficit and promising to fund its centrepiece reconstruction and development programme through savings rather than new borrowing. And while inflation may be rising, its current level of 8.2 per cent is still well down on the double digit rates that characterised the 1980s.



In addition, trade and industry minister Trevor Manuel has shown an encouraging willingness to take on entrenched business lobbies and has already started to dismantle tariffs in sectors such as the motor and textiles industry to force South African manufacturers to become more competitive.

Despite its good track record, however, the markets remain sceptical of the government's ability to successfully rein in spending – a fact signalled in the recent rise of bond yields to more than 17 per cent, representing a real rate of return of more than 9 per cent. And while industrial restructuring is an essential step if South Africa is to successfully start pursuing an export-led growth strategy, in the short term it is likely to depress rather than enhance growth prospects.

However, most analysts agree that the key to whether the South African economy can finally step on to the high road of renewed growth is whether it can successfully attract renewed inflows of foreign capital.

Although the country has seen net capital outflows of around R50bn between 1985 and the first half of 1994, since June the situation appears to have stabilised. But it has not yet reversed. People have stopped taking money out of South Africa, but few people are yet willing to start putting new investments into the country. Meanwhile, the country's foreign reserves remain seriously depleted and are currently able to cover only five weeks of imports.

With total foreign currency debt at only $16.7bn and interest payments accounting for just 7 per cent of exports in 1993, one possible means of correcting this is renewed foreign borrowing. However, the far more desirable route is new foreign investment. But while a large number of foreign companies have set up offices or franchise operations in South Africa over the past 18 months, few have yet made any investments of any significance.

As a result, over the next few years South Africa is likely to follow a path of only moderate growth, representing a significant improvement over the recent past but still well short of the high levels the ANC needs to satisfy the needs of its black constituents.

Middle East: **Roger Matthews** reports

New realism among leaders

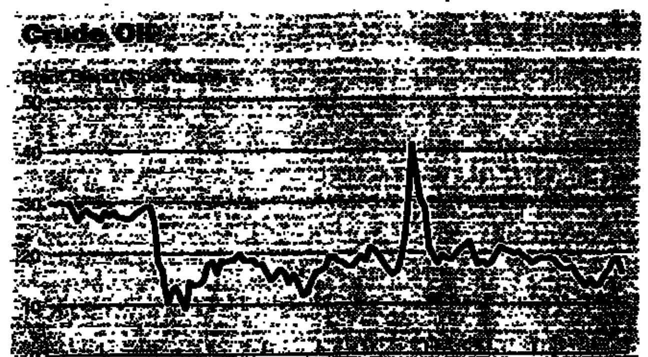
Progress towards a lasting settlement of the Arab-Israeli conflict and the price of oil are the two most obvious factors likely to influence the performance of Middle East economies in the year ahead. However, neither is susceptible to accurate forecasting, and both can be severely affected by the invariably unpleasant political shocks for which the Middle East has become rightly notorious.

The chain of events set in motion by first, the invasion of Kuwait by Iraq in August 1990, and second, by the outline peace accord signed by Israel and the Palestine Liberation Organisation in September 1993, is still being played out. The Gulf war and the putative Arab-Israeli peace agreement has prompted some western leaders and their advisers to conclude that the implications of the Soviet Union's departure from the Middle East political equation has finally been understood and has provoked a new realism among leaders in the region.

This argument suggests that the overwhelming superiority of US and Israeli military forces is obvious even to the most militant. President Saddam Hussein of Iraq has been cowed, and the radical clerics in Iran have been contained. Col Muammer Gadaffi of Libya is a shadow of his former provocative self, while Yassir Arafat, chairman of the PLO, is now a welcome guest at the White House, and may be followed, perhaps before too long, by President Hafez al-Assad of Syria.

There is a strong body of opinion within the US State Department that believes the peace process is now irreversible, whatever the short-term difficulties. "The fundamentals for a lasting peace are almost all in place, in large part because the key players have run out of alternatives," said a senior official recently. "Negotiations, especially between Israel and Syria will be very hard, but both sides are now fully committed to the process."

Less cheerfully, there also appears to be a broad measure of agreement that the economic dividends flowing from the peace process will be slow to emerge. International investors will initially be cautious, while more fruitful regional co-operation will almost certainly have to await the actual signing of peace treaties. Tourism could be an early beneficiary, as could related transport projects involving shared airports and ports on the Israel-Jordanian border. But fear of Israeli economic domination will make Arab governments hesitant about larger-scale projects, and there is little political enthusiasm for lifting the primary boycott against Israel despite its slow erosion. Within the Palestinian territories from which Israel has already withdrawn, progress in utilising the $2.4bn aid committed for the next five years is proving painfully slow.



The emergence of stronger inflationary pressures in Israel has prompted successive interest rate rises this year which has led to a scaling down of growth forecasts. But Israel's longer-term prospects of more sustained export-led growth can only have been enhanced by the new markets which have opened up as a consequence of the peace process. In the medium term, however, there seems little prospect of reducing the heavy arms spending burden on the national budget, with Israel determined to enhance the technological advantage it enjoys over its Arab neighbours.

The same military expenditure pattern is being repeated in the Gulf where the fears and suspicions created by the eight-year Iraq-Iran conflict and the subsequent Gulf war have only partially subsided. Despite a worsening budget deficit, which this year prompted an attempt to cut official spending by 20 per cent, Saudi Arabia continues to give precedence to strengthening its defences.

The government has been forced to negotiate a slowdown in payments on military aircraft purchases from the US, but the overall procurement programme remains largely untouched.

The effects are being most sharply felt by civil contractors and other government suppliers who complain of steadily worsening payments delays. While this may contribute to an apparent narrowing of the budget deficit at the end of the financial year, the warning bells sounded by the IMF in 1993 have not been silenced. The danger of the total government debt rising as a percentage of gross domestic product from the present level of about 58 per cent to 80 per cent by 1997 has not receded. And in the absence of a sustained rise in the price of oil, a squeeze on commercial banks' liquidity as a result of official borrowing could yet harm the development of the private sector which is supposed to act as the main motor of economic growth.

The widening fiscal gap created by static or falling government revenues, and rising recurrent and capital expenditure, goes to the core of the problem facing the Arab Gulf states. Slowly, governments are being forced to accept that the all-embracing welfare state cannot be financed indefinitely. Deeper cuts will have to be made and issues of taxation addressed. The reluctance of governments to grasp this particular nettle indicates the impact such reforms may have on political stability.

More immediate concerns in the Gulf are focused on Iran and Iraq, and particularly when the UN will decide that Baghdad has met the conditions imposed by Security Council resolutions. The consequent resumption of Iraqi oil exports has obvious implications for oil prices, and it will also open the door for international companies already seeking business in Iraq. Demands for war reparations and the payment of substantial debt arrears are certain to amount to well over $150bn and to take many years to resolve.

Iran will be in the forefront of those countries seeking compensation for the damage inflicted during its eight-year war with Iraq. Declining oil revenues and a ballooning international debt have exacerbated Tehran's reconstruction problems while continued political rivalries have blocked most attempts at introducing market-oriented reforms. Iran continues to be a valuable market for Europe and Japan, but the combination of US hostility and poor economic management suggests that in the absence of significantly higher oil prices there is little chance of real growth.

Among the brighter spots in a generally lacklustre Middle East, Morocco and Tunisia stand out as countries which are addressing their structural problems while aiming to promote export-led growth through a closer association with the European Union. But they, too, are forced to keep a wary eye on neighbouring Algeria where the impact of Islam as a political force provides another potent example of the dangers which arise when inept governments fail to tackle the the most basic needs of their populations.

Latin America: new reforms may be on the way, says **Stephen Fidler**

Still battling with self-doubt

The implementation at the beginning of this year of the North American Free Trade Agreement was expected to mark a watershed for Latin American economies.

Yet 1994 has been marked more by reminders of the region's continuing political and economic difficulties than by indications of how far Latin America has moved in the past five years.

The advances are nonetheless important. There has been a sharp decline in inflation in most countries. While generally economic growth has not been as rapid as governments had hoped, it has usually been positive enough to secure some modest rises in real incomes after the declines of the 1980s.

Tariff and other barriers to foreign trade have universally been lowered. At the same time a plethora of free trade agreements and customs unions is spreading over the region, though this is a development which has its potential dangers as well as advantages.

Nonetheless, as a result of more open economies, restructuring, aimed at increasing economic efficiency, has been promoted. This restructuring, involving the closing of old industrial capacity, is still going on, and has slowed growth in some countries, such as Mexico. It has also generated unemployment, ensuring continued unpopularity for the reform process.

The opening of regional economies has also created conditions for a widening of trade and current account deficits. Until February this year, these were being readily financed by inflows from the international capital markets. Following that month's rise in US interest rates, net flows of financing appear to have continued to the region, but investors have been more selective about where they place their money.

This increasing selectivity among investors also reflects an increasingly diverse economic performance by Latin American economies as they emerge from the decade of the debt crisis. These divergent economic and political factors confronting investors include:

□ Mexico: The year began with the advent of Nafta – and a peasant uprising in the southern state of Chiapas. The assassination in March of Luis Donaldo Colosio, the presidential candidate of the ruling Institutional Revolutionary Party (PRI), led to further investor reassessment of political risk in Mexico.

Fears were calmed somewhat by the election of Ernesto Zedillo, the PRI's replacement candidate, in August. Uncertainties remain about a current account deficit this year widely expected to exceed $25bn.

□ Brazil: Renewed enthusiasm among investors about Brazil has followed the early success of a credible anti-inflation plan and the declining fortunes of the left-wing candidate in presidential elections due in two rounds in October and November.

Whoever wins the election, significant reform is still required of the 1988 constitution to bring public finances, and therefore inflation, under more permanent control.Given the country's political system, this may be difficult.

□ Argentina: This year is expected to be good again for growth – though it is likely to be slower than last year's 6 per cent – and inflation is widely expected to drop below 4 per cent for the year. There remain worries about overvaluation of the exchange rate, fixed against the dollar, as the current account deficit widens.

Still, despite the more difficult international market conditions, financing has been available – including a voluntary syndicated loan made available by banks to the government for the first time since the debt crisis. President Carlos Menem faces elections next April, having secured a constitutional change to give him the right to stand again for office.

□ Venezuela: A banking crisis and a response from the new government of President Rafael Caldera that is widely viewed to have been inept have led to Venezuela sliding off the screen for most international investors this year. The recession will continue for a second successive year, and with the economy shrinking by more than last year's 1.0 per cent. Inflation is rising.

Investors are enthusiastic about Peru, in the middle of a big privatisation programme and where growth could top 10 per cent this year. An election next year will see President Alberto Fujimori challenged.

Bolivia is embarking on an ambitious plan to take its state sector out of the hands of the government. Its first flotation is due in November. Chile has a new administration, mostly stressing continuity with the market-oriented policies of its predecessor.

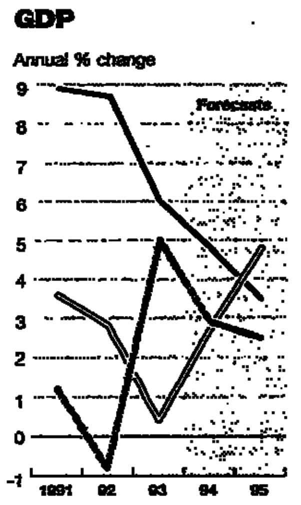
Colombia's new president Ernesto Samper has promised a softening of some of the previous administration's policies, particularly where they affect exporters, but also is pledging continuity overall.

In general, however, while the importance of the market is still being widely stressed, many governments are now looking towards a new series of reforms. This may involve the development of infrastructure – often with the co-operation of private and public sector finance – which in many countries is already acting as a severe bottleneck to growth.

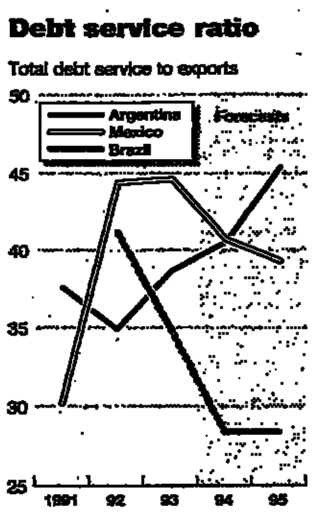
Ironically, after years in which the role of government has been reduced in Latin America, improvements in government effectiveness are now viewed as vital to the reform process.

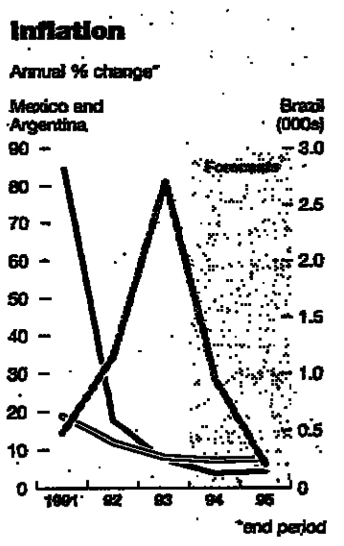
Governments need to improve their delivery of services, such as education and health, and to build institutions – in particular the judiciary – needed for the proper and efficient functioning of market-based democracies.

They also need to ensure that social pressures – and the widening gap between rich and poor – do not derail the progress which has already made towards greater economic self-sufficiency.



Source: Salomon Brothers





*end period

Profile: ERNESTO ZEDILLO

Top man aims to keep his word

Ernesto Zedillo, victorious candidate in Mexico's presidential election, takes office in December with a lot to live up to. Over the next six years, he has pledged to boost the country's lacklustre economic growth, provide around 1m new jobs a year, improve the country's highly unequal distribution of wealth – while maintaining low inflation and keeping public finances in order.

A former central banker and budget minister, with an economics doctorate from Yale University, Mr Zedillo is more aware than most of the difficulties in keeping his word. Despite nearly a decade of economic reform, Mexico's economy is still suffering from a rapid trade opening and the government's tough anti-inflation policies, with many businesses struggling to compete internationally or survive in the domestic market.

Mr Zedillo, though, will have much in his favour. The economy is much stronger than when President Carlos Salinas came to power six years ago. Inflation is expected this year to fall to between 6-7 per cent. The government's budget was in surplus last year, and is expected to be roughly in balance this year. The huge foreign debt that dominated economic policy throughout the 1980s has been cut: Mexico's public net debt to GDP ratio is now far lower than the average in the industrialised world.

Perhaps most important, the economic restructuring that caused so much pain is finally beginning to bear fruit. Productivity in the manufacturing sector is rising by about 10 per cent a year, according to government figures. Foreign investment, drawn by the North American Free Trade Agreement, is increasing rapidly. All this is contributing to a strong increase in manufacturing exports, which in the first half of this year jumped by 20.9 per cent, and partly explains the modest recovery in economic growth of 2.2 per cent over the same period.

Mr Zedillo's first task will be to establish macroeconomic policy – which he may do in conjunction with the administration if the so-called "pacto" (the forum in which economic policy is made) is renewed. Mr Zedillo will have to choose between pushing for faster short-term growth (by loosening fiscal policy and permitting a more competitive exchange rate) or maintaining the fight against inflation (by leaving exchange rate policy unchanged, and keeping the budget in balance.)

The Central Bank and Pedro Aspe, the finance minister, are widely believed to be among those advocating continuation of the fight against inflation, while Guillermo Ortiz, the influential deputy finance minister, is said to support policies more conducive to growth. Mr Zedillo's own position is unknown, but his campaign promises indicate that he is closer to Mr Ortiz. However, as a former central banker and orthodox budget minister, few believe that Mr Zedillo will want inflation to rise above present rates.

The betting is that Mr Zedillo will seek some kind of middle ground, perhaps running a small budget deficit, raising the floor at which the peso can trade against the dollar from 3.056 to the present informal intervention limit of 3.25, and increasing moderately the maximum slide against the dollar from the current 40 centavos a day (about 5 per cent a year). With Mexico expected to run a current account deficit of between 6-7 per cent of GDP this year, Mr Zedillo may find it hard to loosen fiscal policy without permitting more flexibility in exchange rate policy.

The impact of the "pacto" on growth will depend in part on how domestic interest rates respond – influenced not just by exchange rate and fiscal policy, but by the domestic political situation and the international environment. The continuation of high real interest rates would likely slow credit growth, and restrain private investment.

Once macroeconomic policy is established, Mr Zedillo is expected to move to boost competitiveness of the economy, essential if Mexico is to thrive under Nafta. To this end, he has pledged to spend heavily on improving infrastructure, by increasing government spending on public investment by 25 per cent, and setting up a special state fund for private infrastructure projects. Poor infrastructure was cited in a World Bank report as one of the five most serious constraints on private-sector development.

The new administration has promised to encourage greater private financing of infrastructure, especially in railways, ports, and electricity, building on existing investment in telecommunications, water supply and roads. Investors will watch carefully for the choice of minister of communications and transport, who is sure to spearhead the drive to encourage private investment in sectors once dominated by the state.

Elsewhere, Mr Zedillo is likely to favour further deregulation of the economy, especially at the state and municipal level, give tax breaks and subsidised credit to small and medium-sized businesses, and encourage development of more sophisticated financial markets, in particular in the area of mortgages and derivatives.

Mr Zedillo says he will mix his pro-market reforms with increased investment in education, training, and anti-poverty programmes to help those not benefiting from higher economic growth and to distribute wealth more evenly. But with already sharp income disparities having widened under the presidency of Carlos Salinas, who pursued much the same policies, many are sceptical that Mr Zedillo's programme will succeed in significantly reducing the gap between Mexico's rich and poor.

Damian Fraser

India: **Stefan Wagstyl** reports

Liberal policies bear fruit

The economic liberalisation which PV Narasimha Rao, the Indian prime minister, launched three years ago is beginning to bear fruit. But without further reforms there is a danger that progress towards economic modernisation will remain slow.

Together with his energetic finance minister, Manmohan Singh, Mr Narasimha Rao has dismantled much of the licence raj – the panoply of government controls imposed upon the Indian economy in the years after independence. They have cut barriers to foreign trade and investment, made the rupee convertible on the current account and started overhauling the public finances.

Much of the old structure has survived this assault, notably the pervasive power of the bureaucracy and the baleful influence of inefficient state-owned enterprises. The ruling Congress (I) launched reform not out of intellectual conviction but of economic necessity – the old policies had virtually bankrupted the country. With the 1991 economic crisis becoming a distant memory, there is growing complacency about further reform.

However, there is little doubt that the changes Mr Narasimha Rao has already made have opened a window of opportunity for private enterprise, including foreign business, in India. That window may widen or narrow from time to time but it is unlikely to slam shut.

Mr Narasimha Rao is fortunate that his rule has coincided with good harvests. On average, the farmers, who together with their families account for about 70 per cent of the population, are prospering, though the average conceals great extremes of wealth and poverty. At least 200m Indians still do not have enough to eat. But even in quite remote villages, most of the rest are beginning to enter the consumer economy.

The key test of the economic reforms is whether they permit Indians to seize opportunities to build on the bedrock of solid gains in agriculture. The evidence is mixed. The first two years of reform brought tremendous upheavals in production, as the government cut spending to reduce its borrowings, so factories supplying the state saw their sales plummet.

The fiscal deficit plunged from 8.4 per cent of GDP in the year to March 1991 to 5.2 per cent two years later. But economic growth also fell from 4.7 per cent in 1990-91 to just 0.6 per cent the following year. It has since recovered to 4.3 per cent in 1992-93 and 3.8 per cent in 1993-94. But these figures compare poorly with the pre-reform 1980s when growth averaged 5.5 per cent.

Mr Manmohan Singh has tried to boost industry by cutting interest rates and by relaxing curbs on public borrowing. The fiscal deficit grew last financial year to 7.3 per cent of GDP and could reach a similar level this year. With the help of this stimulus, industry is recovering sharply this year, particularly in consumer goods. Industrial production jumped 8 per cent in April year on year, the latest period for which figures are available – the highest increase since 1991.

From the beginning of the reforms, the government singled out exports as a potential engine of economic growth, favouring exporters with incentives, including a sharp devaluation of the rupee. But in recent months, the annual rate of growth in exports has fallen sharply from 20 per cent in 1993-4 to 8.3 per cent in the first four months of the new financial year.

The combination of reform and export growth has persuaded some foreign investors to jump at the chance of investing in India. Since mid-1991, India has approved foreign direct investments totalling $5bn, including more than US$3bn in the year to March. Much of it is concentrated in power, a top government priority. The amount actually flowing into India is also growing – from $148m in 1991-92 to an estimated $600m in 1993-94.

Foreign financial investment has mushroomed, since India in late 1992 opened its stock market to foreign institutions and eased rules for Indian companies to issue paper overseas. Investment from these sources has soared from virtually nothing three years ago to an estimated US$4bn in 1993-94. The growth has been so fast that it has clogged the Bombay stock exchange's settlement machinery.

Unfortunately, for all the progress made in the past three years, there are signs the government is not tackling obstacles on the road to modernity with sufficient vigour.

First, the easing of curbs on government spending has fuelled inflation. Wholesale prices are rising at an annual rate of 9 per cent, compared with under 7 per cent a year ago. With state elections due later this year and next, and a general election by 1996, the government will be reluctant to cut public spending again. But if inflation is not controlled export competitiveness will suffer, and so will popular support for the reforms.

Poor infrastructure is an even greater hurdle. While India is making progress in trying to attract private investment into power projects, it will take time for new schemes to alleviate overall shortages. The inadequacy of telecommunications is equally acute, with investment delayed by a combination of legal disputes over contracts for mobile telephone networks and political argument about privatisation policy.

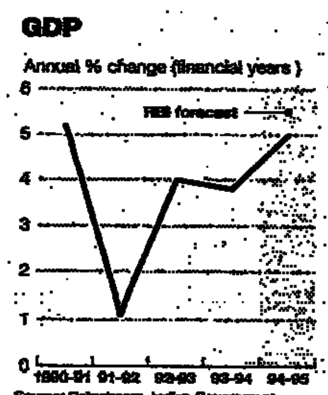
The government has made considerable progress in liberalising the capital markets, including Indian companies' access to the Euromarkets. However, it is reluctant to relax state control of the banking industry. The state-owned banks, which dominate the market, are being allowed to raise private equity, but the government will retain a majority stake. This will stifle competition and delay the provision of modern banking services.

The inefficiency of publicly-owned services and industries remains a drag on the economy, accounting for nearly half the nation's capital but producing only about 27 per cent of its output. The government has sold stakes in leading state-owned enterprises, including banks, steel operations and electronics manufacturers. But ministers have opposed selling more than 49 per cent of a unit for fear of losing control.

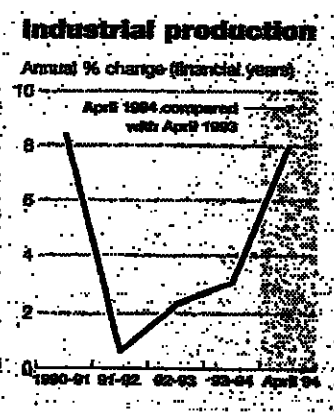
The government is also reluctant to liberalise India's restrictive labour laws, which seriously limit employers' rights to make surplus workers redundant. While companies can find ways around the law – through voluntary schemes and redeployment – large-scale dismissals are virtually impossible.

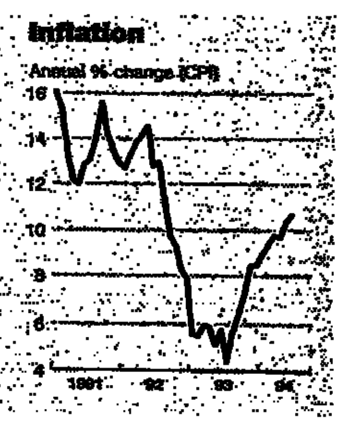
Finally, India's progress could be held back by the low educational standards of much of its population. Only 52 per cent of Indians can read, compared with about 75 per cent of Chinese. No country, except the oil-rich middle eastern states, has modernised its economy with such high levels of illiteracy.

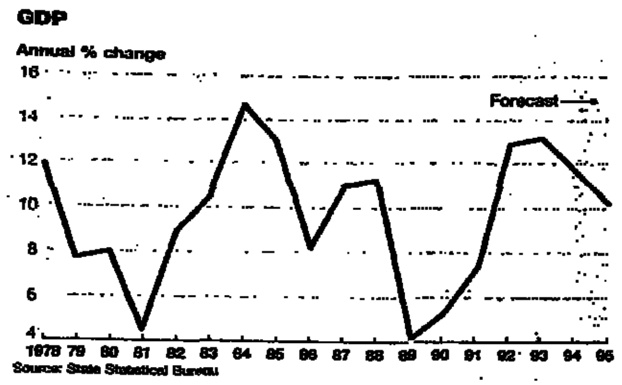
India has the resources to tackle these difficulties. It is not short of skilled administrators, teachers or engineers. What seems to be lacking is a sense of urgency.



Source: Datastream, Indian Government







China: **Tony Walker** on difficulties in the reform programme

Cooling down the overheated dragon

China's economy continues its roller coaster ride with the authorities grappling with unsustainable growth rates, inflation and the difficulties of managing a complex transformation from a centrally-planned to a market-oriented system.

The announcement in late August that the government was re-introducing price controls to curb inflation and was also pumping additional funds into ailing state enterprises indicated increasing official nervousness over the possible social costs of its economic reforms.

Since the unveiling of a 16-point stabilisation programme in July 1993, the government has sought to calm an over-heating economy by resort to tight money policies. These measures helped restore a semblance of order to a chaotic economy by strengthening credit controls and bolstering central supervision over an errant financial sector.

But the "macroeconomic control measures" have been less successful than the government would have hoped in combating inflation which has now been singled out as the main threat to China's social and economic advancement. Indeed, the authorities have announced that reducing inflationary pressures will be the main task for the rest of the year.

Official nervousness about a link between rising prices and possible social unrest was spurred by July urban cost-of-living figures which showed a jump of 24.2 per cent over the same period last year. This indicated that price rises were beginning to accelerate again after appearing to slow in recent months.

The government has also been obliged to acknowledge that its attempts to reform state-owned enterprises are proving more difficult than anticipated in the light of social stresses caused by rising prices, and the dire situation of many of these companies.

According to the State Statistical Bureau some 50 per cent among 11,000 medium and large state enterprises were in the red in the first part of this year. One of the most serious problems facing the government is that of "triangular debt" – the inability of virtually bankrupt state enterprises to pay each other for goods and services.

In turn, the continuing voracious demands for subsidies of faltering state companies is threatening to undermine the government's tight money policies. State enterprise reform continues to be a significant challenge and burden.

Inevitably, the government's announcement that it would reinstate price controls (it announced there would be no new increases for the rest of the year) and would also bail out failing enterprises, has raised questions about its commitment to continued economic liberalisation.

But while western economists detect "wavering" in the reform effort, they believe that in the longer term China has no choice. "The government recognises that the reforms are essential, both to ensure balanced sustainable growth and to provide an effective set of market-based macroeconomic management tools," said one.

China's outlook for this year is for continued high growth rates in excess of the official 9 per cent real GDP target. Economists expect growth between 11-12 per cent compared with rates of more than 13 per cent in the past two years. Real GDP increased by 12.7 per cent in the first quarter and 10.5 per cent in the second quarter of 1994.

The inflation bogey may have taken the gloss off the government's economic programme, but this is not to say China's economic managers are without some notable achievements. These include currency unification, stabilisation of the exchange rate, stronger growth in exports, a sharp improvement in foreign exchange reserves and the introduction of complex tax reforms aimed at improving central government revenues.

The authorities also completed the successful sale of Yn100bn (US$11.7bn) in state treasury bonds to finance the budget deficit. Public demand for the government paper was stronger than anticipated and sales targets were achieved ahead of schedule.

China's outlook for this year is for continued high growth rates

Bank savings have also risen strongly following two rounds of interest rate increases (by a cumulative 4 per cent) last year. Urban and rural savings rose by 28 per cent in 1993 to Yn1476bn (equivalent to 47 per cent of GDP).

Government attempts to slow capital spending as part of its anti-inflation strategy have met with mixed success. Total investment grew last year by more than 50 per cent compared with the previous year. It fell back to 25.5 per cent in the first half of this year; but a July surge in investment in state-owned fixed assets to 73 per cent compared with the same month last year proved alarming.

The government had blamed a capital spending binge in 1993, much of it in speculative real estate, for the inflationary pressures which are still bedevilling the economy.

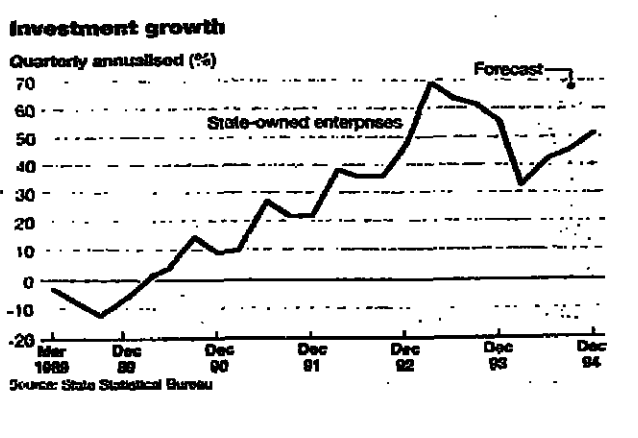
China's central bank has indicated that it plans to tighten credit in the third quarter, and also to clamp down on the activities of non-bank financial institutions such as trust companies. These institutions have been singled out as the main culprits in unauthorised lending outside the credit plan.

China's budgetary position continues to be difficult. China budgeted for a Yn66.9bn deficit for 1994-95, but this almost certainly understates the likely funding gap. While state revenues increased by 22.6 per cent in the first half of this year compared with the same period last year, the central government's financial position remained weak.

The finance ministry blamed below target revenue growth, pressures on expenditure and tax evasion for a shortfall in revenues. Prospects for improvement in the second half of the year do not appear all that promising.

In contrast, China's external situation has improved sharply. After recording a trade deficit of US$12.2bn in 1993, China may be heading for a balanced trading account in 1994.

Exports grew by 31.2 per cent in the first half of the year compared with import growth of 19 per cent, reversing last year's trend in which imports grew much faster than exports.



East Asia: **Victor Mallet** describes the region's success story

The tigers are still growing

It is as hard to meet pessimistic economists in east Asia as it is to find negative economic growth rates. If success is measured in gross domestic product, developing Asian countries have been and continue to be pre-eminently successful examples of how to manage high-speed industrial revolutions.

According to the Asian Development Bank, per capita income in developing Asia grew at an average rate of 4.4 per cent a year between 1970 and 1992, compared with 1 per cent in Latin America and virtually nil in Africa. Last year, growth in the developing Asian economies was almost 10 times as high as in Africa and more than twice as high as in Latin America or the Middle East.

There is no sign that growth is slowing. Cambodia is mired in a messy civil war, but the communist-run economies of Vietnam and Laos are being liberalised and are expanding.

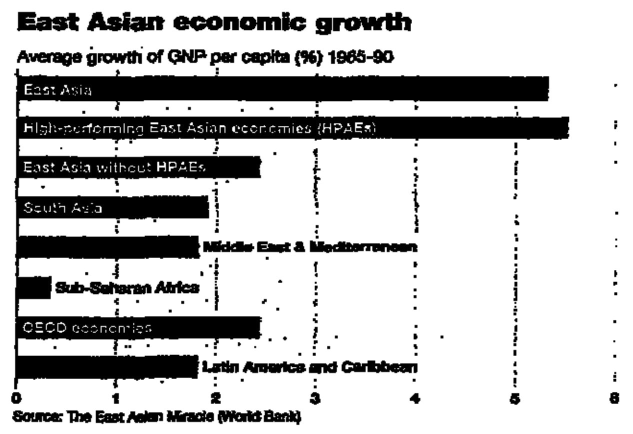
Economists predict that growth in China will moderate after the double-digit expansion of the past two years, but average GDP growth in the four south-east Asian economies of Indonesia, Malaysia, Thailand and Singapore should rise to more than 8 per cent this year from 7.8 per cent in 1993 and 6.9 per cent in 1992. Even the Philippines and Burma, Asia's laggards, are recovering.

Behind the rosy statistics lie some extraordinarily rapid industrial and social changes.

Retailing, for example, is being transformed in south-east Asia. Giant, western-style shopping malls – Seacon Square, said to be the largest mall in Asia, was opened in Bangkok in August – are starting to replace markets and small shops.

As international communications improve and Asian countries industrialise at an ever-increasing speed, Asians are leap-frogging whole stages of development experienced in previous industrial revolutions. Some people use cellular telephones before they know what it is to have a fixed telephone. Exports of rice and tapioca are replaced by exports of microchips, allowing western companies to exploit niche markets by exporting to Asia intermediate industrial goods.

Asia's success has spawned a clutch of reports seeking to explain what Asia is doing right and what other regions of the world might emulate. The findings are not particularly startling: successful Asian countries have encouraged foreign investment, been fiscally responsible, and kept inflation low; their citizens save much of their income and do not have too many children.



Predicting which factors might limit Asian growth in the future is more problematic.

Several Asian countries lack the transport and communications infrastructure required to support their increasingly modern industrial economies, but such difficulties will probably be overcome in time with the help of money from foreign investors and fast-growing local capital markets; even Thailand, which has been notoriously lax in developing its infrastructure, is building new roads and is now installing millions of new telephone lines, although work on a mass transit system for congested Bangkok has yet to begin.

The environmental damage caused by population growth and uncontrolled pollution and commercial exploitation could be another factor limiting Asian growth, especially since several of the region's economies still depend heavily on exports of natural products such as timber and fish.

Environmentalists say the recent growth rates of high-performing Asian economies would be several percentage points lower if the benefits from asset-stripping of environmental resources were excluded from the figures.

Another problem is the shortage of skilled labour that is already increasing costs in some fast-growing Asian countries, and the lack of home-grown technical skills.

And although intra-Asian trade and investment are increasing, the worsening mood of Asia's international trading partners in the US and Europe could yet turn out to be the most important determinant of Asian growth rates.

As the World Bank noted in a report* published in July, east Asia's exports have risen more than thirtyfold in the past quarter of a century to about $850bn, increasing the east Asian share of all world exports to 21 per cent from seven per cent.

The result of this – industrialised countries' imports from east Asia have been rising by 15 to 20 per cent a year without their receiving greatly improved access to Asian markets in return – is a series of probably unsustainable Asian trade surpluses and rising trade tension between the US on the one hand and China and Japan on the other.

The World Bank recommends that Asian exporters, for their own good, should therefore accelerate the liberalisation of their trade regimes. Import tariffs, for example, should be halved, bearing in mind that countries such as China, Indonesia, the Philippines, Thailand and Vietnam have sometimes been protecting manufacturing with effective rates of more than 40 per cent.

Much of the industry protected for nationalistic reasons is not domestic. In Malaysia, the Philippines and Thailand, the ADB says, foreign companies account for more than half of manufactured exports.

"Import protection is no longer justified by the old infant-industry arguments," the World Bank report says. "Many of the protected industries are no longer infants, and much of the protection is costly."

A number of Asian governments have already embarked on a new round of tariff-cutting and liberalising of foreign investment laws. Economists in Asia, for whom optimism has become a way of life, are betting that the region's dragons and tigers will once again adapt successfully to the international climate and that GDP will continue to grow both in absolute and in per capita terms.

* *East Asia's Trade and Investment: Regional and Global Gains from Liberalisation.*

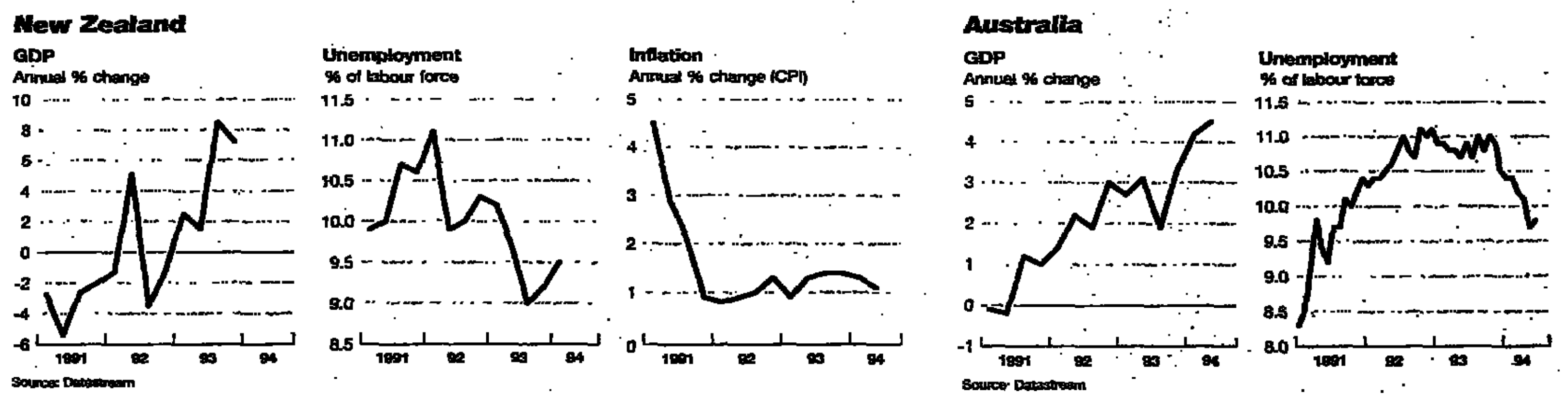
Australia and New Zealand: both countries are forecasting growth of around 4 per cent, says **Nikki Tait**

Poised to benefit from thriving Asia

Australia and New Zealand, taking their cue from the US, have led the industrialised world out of recession.

The improvement began to be apparent in late 1993. By 1994, both countries had posted year-on-year growth rates, in terms of gross domestic product, of around 5 per cent. Now both are forecasting that growth will be sustained at slightly below this level – somewhere around the 4 per cent mark – for the foreseeable future.

But, despite the countries' geographical proximity and the fact that both implemented significant reform programmes in the 1980s – which deregulated their economies, lowered tariff barriers, and encouraged competition in key industries – the differences between the two countries are marked.



New Zealand has pushed down the reform road at a cracking pace, and extended the reform programme into its welfare sector, replacing the previous "universal" system with "targeted" arrangements aimed at aiding only the most needy.

It has also enshrined in law some key elements of its new economic order. The Reserve Bank's right to pursue anti-inflationary policies independently of political interference, is one example. The Employment Contracts Act, which essentially did away with the centralised wage award system in favour of individual contracts, is another.

On the one hand, this has brought international approbation. Foreign investment in New Zealand has been strong: direct net investment inflow in the year to end-March was more than twice the level of the previous 12 months, at NZ$4.7bn.

The country also moved to a small budget surplus in the year to end of June 1994, the first seen in New Zealand for 20 years and a result which surpassed even Treasury expectations.

Even with this extra leeway, however, the ruling National government decided to first tackle the country's lingering debt problem – at mid-year, public debt stood at 39.6 per cent of GDP – and only then reward New Zealanders for their past sacrifices. Tax cuts were held out as a very distant carrot, possibly becoming available in 1996/7.

New Zealand has enshrined in law some key elements of its new economic order

But New Zealand has paid a political price for this financial zealotry. The reform programme was begun under a Labour government, and initially tagged "Rogernomics" after Sir Roger Douglas, the finance minister.

In 1990, the electorate switched its allegiance to the National Party, only to find the *new government extending the* reforms to the welfare system.

At the last general election, in November last year, the electorate appeared at first to have returned *a hung parliament* – until a recount in marginal seats gave National a one-seat majority. Since then, there has been one by-election, where National scraped home again by just over 300 votes.

More fundamentally, the New Zealand electorate showed its dissatisfaction by electing to replace the current "first-past-the-post" electoral system, which mirrors the British model, *by a form of proportional* representation which is based loosely on the German system. This, it has been said, will give minority parties a greater say, and lead to "consensus" government. Both National and Labour look likely to be losers under the new arrangements which could come into force from mid-1995 onwards.

Australia, with a much larger economy and a very different cultural history, has made the changes more gently. Trade barriers are set to come down over the present decade, for example. The government has moved to encourage workplace-based "enterprise bargaining", but has traded a slower rate of change for union compliance.

Its recent industrial relations reform legislation actually beefed up workers' protections – by, for example, enshrining the right to strike in law.

Australia, with a much larger economy, has implemented its reform programme more gently

The Reserve Bank, despite some political assertions, is not seen as an independent force, and certainly has none of the guaranteed protections and clearly-stated objectives under which the Reserve Bank of New Zealand operates. Some large government or state-controlled enterprises, such as Telecom Australia (known as Telstra outside its home market), have not yet been privatised. The issue of what, if any, further sell-offs should be permitted is a matter of debate. A federal budget surplus is not expected before 1997.

And Australia's federal government used the "growth dividend" – the financial leeway resulting from the country's faster-than-expected growth rate over the past 12 months – to finance a major jobs programme, designed to help tackle the issue of "long-term" unemployment.

The result has been a much more stable political environment. The Australian Labor Party, which began the changes, is still in office although many observers did not favour its chances going into the 1993 election. A backlash has been more apparent at state level, with only Queensland remaining under Labor control.

Where the two economies go from here is an interesting question. Both stand to benefit from the booming Asian region, in terms of export demand, investment opportunities, and through the service sector – whether it is catering to Japanese brides in Christchurch or Malaysian students in Perth. Both, though, have to move up the value-added export curve, and reduce their role as Asia's "farm and quarry".

Australia and New Zealand are also seen as two leading beneficiaries of the Uruguay Round's conclusion, in the latest GATT negotiations. The benefit to the New Zealand farm sector has been put at around NZ$1.5bn a year of extra export business, once the *provisions are fully* implemented; in Australia, the equivalent figure could be around A$1bn-plus.

For Australia, the challenge centres on avoiding the "boom-and-bust" cycle seen in previous upswings. In part, this scenario has resulted because of a tendency for the country's balance of payments to lurch out of kilter – prompting interest rate hikes.

There are some Cassandras who see this scenario repeating itself, especially if business investment, which has been slow to recover, surges all at once. Imports of plant and equipment will rise, it is argued, and the current account deficit will widen.

The optimists' counter-claim is that the performance of the economy means that Australia is more competitive, and that it will maintain a much stronger export performance.

For New Zealand, there is still the task of reducing debt. But the bigger issue remains the political one – in particular, whether the economic benefits of the decade of austerity have filtered down to enough voters to ensure that some of the more controversial elements of the reform process, such as the Employment Contracts Act, are not repealed.

South Korea: a study in contrasts, says **John Burton**

Hitches in reform policy

The South Korean economy is a study in contrasts as the East Asian nation prepares to join the Organisation for Economic Co-operation and Development in 1996.

The economy has returned to robust health after two years of the slowest growth in more than a decade.

A boom in exports, aided by a weak Korean currency, has sparked a large expansion of industrial facilities. GNP is expected to rise by 8.3 per cent in 1994.

But there are growing worries in Seoul that the economic upsurge may only prove to be temporary since it is largely based on the strong Japanese yen undercutting the competitiveness of Korea's chief industrial rival in Asia.

There are doubts whether Korea can perform as well once the yen weakens. A warning about the future of the Korean economy was recently given by a joint report from *the Swiss-based International* Institute for Management Development (IMD) and the *World Economic Forum*, which concluded that Korea has slipped from third to seventh place among developing nations in global competitiveness since 1991.

The independent study gave Korea poor marks for trade protectionism, the internationalisation of its financial system, and strong government interference in the economy.

Korea has already outlined an ambitious programme of economic deregulation and financial liberalisation to solve *these ills* and *help gain* support for its OECD membership bid.

But *the reform policy* already appears to be running into trouble in its initial stages, although the bulk of the changes are not due to be implemented until 1996 or later.

There are several reasons for the problems that the reforms are encountering. There is bureaucratic opposition among the economic ministries, which fear a loss of *power as a result of the* changes.

The government worries that the rapid introduction of reforms would remove restraints on the expansion of the big conglomerates, or chaebol, which would increase their economic dominance at the expense of small and medium businesses.

Officials, for example, are opposing the entry of Samsung and Hyundai into the car and steel industries, respectively, in spite of promises to deregulate the economy from state control.

A programme to privatise 47 state-owned companies has also become bogged down because of government concerns *that it will offer* an opportunity for the chaebol to expand their industrial *empires*.

The public is also sceptical about the benefits promised by a fall in trade barriers and increased foreign investment. Memories of harsh Japanese colonial rule until 1945 are still strong and the public perception is that foreign investment represents a new threat of economic exploitation by outside interests.

Finally, there are worries about the disruptive effects that the reforms would impose on the economy. The free flow of capital into Korea, for example, could increase inflationary pressure. The internationalisation of the Korean won might cause it to appreciate, which would harm exports.

There are growing worries that the economic upsurge may prove to be temporary

Financial liberalisation is being held back by the poor state of the nation's banks, which have sizeable bad debts on their books because of previous government directives that forced them to lend to *favoured* industries with little regard for their creditworthiness.

An overhaul of the banking industry is necessary before the financial reforms can proceed.

The chaebol have also built huge debt-equity ratios that could expose them to financial problems if reforms are quickly introduced.

It is not surprising then that the government has adopted a cautious approach on the reforms.

But *critics claim that the* slow pace of implementation could rob the reform programme of whatever momentum it had when the government of President Kim Young-sam announced the changes a year ago.

Although the proposed reform schedule is rapid by *the historical standards of* Korea, it still appears leisurely compared to the market opening efforts of other countries in Asia, including China.

The financial liberalisation measures to be introduced within the next year are minimal.

The government, for example, has promised to raise the ceiling on foreign ownership *of stock from 10 per cent to 15* per cent by next June.

But there are doubts among *foreign securities* houses in Seoul whether this target will be met because of government worries that an increase in the ceiling could cause share prices to climb. The ministry of finance is already intervening to keep the bourse from overheating as part of its anti-inflation effort.

Although the bond market has recently been opened to foreigner investors, they are limited to buying convertible bonds of small and medium-sized companies and long-term *state and public bonds*.

The raising of overseas funds by Korean companies is *only being gradually eased* because of fears that an excess amount of capital will flow *into the country and increase* inflation.

This approach is being taken in spite of arguments that increased overseas borrowing would improve the country's competitiveness because it would allow industry to take advantage of lower interest rates abroad.

Cheaper overseas capital would improve the ability of companies to make necessary investments to counter a rise in wages.

Foreign investment restrictions are only being dropped in selected areas. Foreign participation in infrastructure *projects* is being encouraged because of the need to remove transport bottlenecks that are hampering economic growth.

Reduced restrictions on foreign investment have been limited so far to high-tech companies. "Welcome as these measures are, they still reflect a desire on the part of government to micro-manage the economy by targeting specific industries and keeping the *playing field* uneven," said Merrill Lynch, the US securities firm, in a recent commentary on the Korean economy.

The climate for reforms could worsen in the coming months. The national assembly is expected this autumn to debate approval of the Uruguay Round of Gatt measures, which has already provoked a storm of protest in Korea because it would force the opening of the rice market.

Global economy growing well

Continued from page 1

have brought untold misery in former Soviet republics such as Georgia and Tajikistan are just examples from the many parts of the world which lack the most basic conditions for creating economic well being.

Such regional crises are a *reminder* of how *far we* are from a "new world order". There are also plenty of global problems that governments have been slow to address. This month's UN conference on population and development in Cairo was the first to tackle the subject for a decade. Economic policymakers have yet to consider an international approach to migration although economic factors are usually the cause of people moving from their homes.

Often, it seems, the first response of the industrialised countries to the complexities of the global economy *has* been regional.

It was easier for the US administration to negotiate and win Congressional approval for the North American Free Trade Area with Mexico and Canada than it has been to negotiate and obtain backing for the Uruguay Round.

Hopes of regional integration continue to cast their spell in the European Union. The 12 months of calm in the European exchange rate mechanism, following its crises of 1992 and 1993 have revived the prospects for Economic and Monetary Union.

Nonetheless, in this, the *50th* anniversary year of the Bretton Woods agreements setting up the IMF and World Bank, policymakers have realised that they cannot ignore the interdepence of their countries or the international institutions that helped shape the world economy since the second world war.

The leaders of the G7 countries have agreed that next year's economic summit in Halifax, Nova Scotia, should review the institutions of global co-operation as a first step towards making global economic management fit better with the realities of the post-cold war world. This, said President Clinton, was "a commitment to discuss in Halifax what we want the world to look like 20 years from now".

This is a potentially bold move. It may lead to nothing given the strength of national interests. *But in* view of the doubts surrounding the present economic recovery, world leaders would stand charged with gross neglect if they did not strive to improve the outlook for growth by strengthening economic co-operation.

RECRUITMENT

Cultural restraints on missionary zeal

The Swedes are not known for their revolutionary zeal. The last time they felt it was time for a change, in 1809, it was a bloodless, painless affair. King Gustav IV was deposed and the throne given to Jean Baptiste Bernadotte, a French general. When Bernadotte addressed the parliament in halting Swedish he was greeted with roars of laughter and was so upset that he never spoke Swedish again.

Geert Hofstede, professor of Organisational Anthropology and International Management at the University of Limburg and Maastricht in the Netherlands, attributes Bernadotte's reaction to the cultural differences between France and Sweden. In particular he notes the differences in what he calls power distance – the emotional distance that separates subordinates from their bosses.

This power distance in France is much greater than in Sweden. Hofstede created a power distance table, drawn from a survey of IBM employees in different countries.

The high scorers are those societies in which subordinates depend to a large extent on their bosses. The same goes for families. Those that have low scores tend to have a more consultative relationship between managers and subordinates. There is more interdependence between the two.

Malaysia scores the most highly, with Austria the lowest. Latin American countries tend to have the highest scores and Western European countries, with the exception of Belgium and France, are among the lowest scores.

Hofstede's work, following on from original research on power distance by a Dutch social psychologist, Mauk Mulder, helps explain why some companies have difficulty transplanting their business cultures across borders.

It may also explain why the proposed Volvo-Renault merger ended in tears last year when Volvo managers revolted against Pehr Gyllenhammar, Volvo's then chairman, whose resignation followed, partly in frustration at his managers' inability to meld with French management.

While, as in Volvo's case, corporate cultures still have the power to disorientate managements, most managers now appear to be aware that culture is something that must be addressed when considering organisational change.

Angela Baron and Mike Walters, of the Institute of Personnel and Development, note in a new study of corporate cultures that "Managers are becoming adept at recognising the strategic importance of culture and even at mapping existing culture within their organisation".

The difficult part is doing anything about it. "Success at bringing about sustainable, positive changes in culture has been limited," they write.

Their research covering 15 case studies in five economic sectors – retail, financial services, information technology, consumer goods and public utilities – includes some surprising findings.

Perhaps the most fashionable business concept to be seriously questioned in the study is the mission statement. "I thought that would be the first thing to come out of the drawer when I visited these organisations but it just didn't happen. A lot of people said mission statements were all well and good but it was action not words that they were looking for," said Baron.

Even in a company such as Johnson & Johnson with its celebrated Credo, the researchers found its words carried less emphasis away from the US headquarters. Constant attention to the credo, however, ensures that it continues to enshrine Johnson & Johnson's business values, and that staff are aware of its importance, suggesting that a mission may work best if it is hammered in to people and frequently reviewed.

In contrast, many of the managers in the case studies were unable to quote their mission statements and typically attached no great significance to them.

In some cases, said the report "it was clear that, although a great deal of thought had gone into their mission statement, it had, as yet, failed to engender a 'sense of mission'".

The research will disappoint managements which have laboured over precise wordings to arrive at a statement which encapsulates what the company is about and identifies where it is going. Some 50 per cent of companies in the UK and the US have some form of mission statement, notes the IPD report.

Many of the companies encountered by Baron and Walters explained that they did not feel any need to agonise over "pretty" words, leading the authors to concluded that "a sense of mission could exist in organisations where no mission, vision or value statement existed".

The Hongkong and Shanghai Bank, for example, eschewed mission or value statements but acknowledged that it maintained a strong unwritten value system that emphasised integrity, organisational loyalty and long service. This was mirrored in paternalism evident in the bank's policy of maintaining the graves of expatriate employees buried overseas.

Rubbing salt into the mission guru's wounds, Baron and Walters write: "Mission statements would appear to many organisations to have more relevance in the outside world as a PR exercise than they do as internal tools for the management of culture."

The Culture Factor, Corporate and International Perspectives by Angela Baron and Mike Walters, Institute of Personnel and Development, IPD House, Camp Road, Wimbledon, London SW19 4UX, tel: 081 946 9100, price £35.

Cultures and Organizations by Geert Hofstede is now available in paperback, HarperCollins, £8.99.

Richard Donkin

Rank One = *Most senior executive below rank of director in:*	Lower quartile Basic salary £	Lower quartile Total pay £	Median Basic salary £	Median (Basic year earlier) £	Median Total pay £	Median (Total year earlier) £	Upper quartile Basic salary £	Upper quartile Total Pay £	% with company car
Legal advice	35,875	38,250	43,920		43,920		52,064	52,866	54.5
General management	30,429	31,308	35,422	(34,922)	36,650	(35,395)	40,275	42,000	86.2
Company secretariat	30,000	30,695	35,715	(37,791)	37,891	(39,385)	45,819	48,100	82.0
Finance & accounting	29,700	30,568	35,028	(33,000)	36,000	(34,000)	41,182	42,831	80.1
Surveying/construction	29,453	29,453	31,679	(30,920)	31,679	(32,076)	38,778	39,131	38.9
Marketing	27,891	29,129	32,868	(32,263)	33,229	(34,420)	39,024	39,813	85.3
Advertising & PR	26,902	27,025	31,318	(31,318)	31,318		37,503	37,503	64.0
Data processing	28,740	29,000	33,420	(32,270)	33,785	(33,683)	38,284	38,575	74.7
Sales	27,500	28,583	31,950	(30,608)	33,784	(31,752)	37,800	41,504	91.0
Distribution	25,754	26,450	30,085	(28,992)	30,902	(31,998)	38,000	38,523	85.2
Personnel	26,813	27,334	32,863	(32,168)	33,284	(32,463)	37,268	38,650	79.7
Administration	25,845	26,811	29,919	(31,844)	31,754	(32,372)	38,665	38,665	73.2
Research & Development	27,740	28,406	33,322	(30,000)	33,322	(30,237)	38,661	38,661	67.0
Planning	27,564	27,564	30,867		30,867		36,348	37,774	76.0
Purchasing	25,000	26,114	28,917	(29,006)	29,004	(30,304)	35,500	35,500	77.2
Engineering	26,499	27,500	31,059	(30,458)	31,590	(30,625)	35,556	35,883	77.2
Management services	26,500	26,500	30,934		30,934		35,962	35,962	69.2
Production	25,695	26,419	29,852	(28,500)	30,272	(29,044)	35,000	35,361	79.3
Quality assurance	23,841	23,923	28,557	(28,200)	28,837	(28,782)	32,589	32,969	69.7
All Rank-One execs	27,480	–	32,055	(31,058)	–	(–)	38,296	–	79.6

The table, an extract from the six-monthly Reward management salary survey, shows pay for managers just below director. The lower-quartile figures refer to individuals who would be a quarter way up from the foot of a ranking, medians to those ranked halfway and upper-quartile to those a quarter way down from the top. A gap has been left where no comparative data exists.

Regional percentage variations from the overall median of £32,055 were: London 19.8, Eastern Counties -6.8, North East -6.6, N. Ireland -2.9, North West -8.9, Scotland 12.5, South East 3.6, South West -5.5, West Midlands -2.3.

To allow for increases between the collection of data and October 1, Reward says the pay figures should be increased by 0.4%, and by a further 0.2% for each month after. The survey is available from Reward, Diamond Way, Stone Business Park, Stone, Staffordshire ST15 OSD, tel (01785 813566

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European Fixed Income Strategy

Markets Researcher

J.P. Morgan, one of the most prestigious and universal banking firms and a market leader in global Fixed Income, seeks to add a Markets Researcher to its European Markets Strategy unit, based in London. The Group is responsible for formulating and communicating to clients (both internal and external) the bank's interest and exchange rate view, developed from financial analysis and market intelligence.

Candidates, in their mid 20's to early 30's, will be Economics graduates with a Masters in Economics or Finance. You will have a minimum 2 years experience in analysing European bond and currency markets, using both economic variables and market dynamics. Fully familiar with the applications of econometric models, you will be able to communicate your results convincingly and to operate effectively within a highly team-orientated environment.

This position offers excellent career prospects within the firm's international network. In addition to a generous basic salary, the package will include a performance-related bonus, profit share (after an initial qualification period) and the full range of banking benefits.

Interested applicants should submit a detailed curriculum vitae to Andrew Stewart of BBM Selection at 76, Watling Street, London EC4M 9BJ or contact him on 071-248 3653. Strict confidence assured.

JPMorgan

CHANGE OF CAREER?

Long term development and growth in private limited company expanding in Central London.

Individuals aged 23-35 seeking full training in client servicing and management skills. Potential for share in profits generated. Suit smart, potential high earner.

CONTACT: DOMINIC WIDLAKE
071 497 3005

P.M.S.
Personnel Management Services
av. des Croix du Feu 231 -1020 Brussels
Belgium

Our client, an international company located near Heidelberg (Germany) is urgently looking for a

German-French Finance Translator

French mothertongue with excellent German and good English. Business Administration/Economics graduate with translator capacities or specialist translator with additional qualifications in Finance. Knowledge of the European Union is an asset. Age 30-40 years.

Interested in this vacancy? Call Karen at (32) 2 262 20 93
or send your CV to the above mentioned address or by fax (32) 2 268 12 77.

Corporate Finance
Sydney, Australia

Major UK Merchant Bank — Managers/Assistant Directors

As one of the world's pre-eminent merchant banking organisations, our client has a proven record of consistent excellence in providing corporate and financial advice to corporations and governments. Offering expertise in mergers and acquisitions, take-overs, divestitures, capital raising and all forms of financial advice, they have been responsible for working on some of the industry's most noteworthy transactions.

Within a rapidly developing global network their Australian operation stands out as one of their most successful and innovative businesses. As a result of continued growth they wish to appoint two experienced corporate advisers to join a highly successful, closely knit team of professionals.

Candidates must be able to demonstrate a proven ability to manage complex corporate advisory transactions. In addition, you will be capable of providing strategic advice and delivering practical but creative solutions to maximize your client's performance.

Other qualities we seek include:

- A strong client servicing ethos.
- Outstanding academic credentials.
- Well developed commercial judgement.
- Tenacity and commitment to deliver.

These are strategically important positions within the group and outstanding career prospects and financial rewards are on offer. Applications are invited from Australian nationals or alternatively working visas can potentially be arranged for non-Australian passport holders ready to make a minimum two year commitment. A full relocation package is available.

To apply, please send a full resumé to Tim Musgrave at Morgan & Banks Plc, Brettenham House, Lancaster Place, London WC2E 7EN quoting reference number 22/1807 or, if you prefer, call him on (071) 240 1040. Alternatively if it is more convenient, call Jon Michel in the Sydney office on (2) 256 0333.

Morgan & Banks INTERNATIONAL

INTERNATIONAL STRUCTURED FINANCE

Baring Brothers & Co., Limited is seeking additional executives for its successful Structured Finance Group. The team, which is based in London, is involved in arranging mortgage and asset-backed finance for a wide range of clients in the UK and international markets.

Suitable candidates are likely to be:

- from an investment banking or financial background
- aged 23-30
- highly motivated self starters with strong transactional experience
- numerate with good analytical and computer skills

Preference will be given to candidates with relevant asset-backed experience, although this is not a pre-requisite. Language skills will be an advantage.

Salary will be competitive, with a performance-related bonus and benefits commensurate with a leading merchant bank.

To apply, please write, enclosing a curriculum vitae and details of current remuneration package to: Ruth Norman, Deputy Manager, Personnel, Baring Brothers & Co., Limited, 8 Bishopsgate, London EC2N 4AE.

BARINGS

THREE EXCELLENT POSITIONS FOR THREE EXCEPTIONEL MANAGERS

Gist-brocades is a group of companies with a leading international position in biotechnology. As part of our Bio-Specialties Division, the Dairy Ingredients Group concentrates on the fast-changing international dairy market. This Group's current position will be expanded and strengthened by enterprising managers able to capitalize on existing know-how in products and applications for the world dairy industry. We have three challenging vacancies in the Group for commercially-minded graduates keen to take on responsibility and penetrate new markets. We are looking for a

Business Manager Dairy Ingredients (m/f)

for each of the group's three product/market combinations (PMCs): Tests (products to detect contaminants in milk and milk products), Cheese Ingredients and Dairy Preservatives.

The Business Managers will be profit-responsible for their PMC and will oversee the entire business process, from market research to product development and sales. They must think primarily in terms of market opportunities.

A Business Manager operates as an independent entrepreneur within the group. He or she should preferably hold a degree in biochemistry, chemistry or food technology and have experience in a large international organisation working with advanced technologies.

Personal qualities are more important, however. Candidates will be tested for initiative, creativity, perseverance, persuaviness, an understanding of finance and interpersonal skills. The ability to take decisions in uncertain situations is another important quality. To help us select candidates with these qualities, our selection procedure will also include tests by an Assessment Centre.

With a worldwide market to cover, Business Managers spend about 30% of their time travelling. Language skills are therefore an important asset (especially English).

The right candidate will be working in a dynamic environment marked by an innovative approach. If you think this is the job for you, please send an application letter and CV to: Mrs. M.J. Keuzenkamp, Bio-Specialties Division, Gist-Brocades BV, P.O. Box 1, 2600 MA Delft, The Netherlands.

Gist-brocades

GIST-BROCADES B.V. IS ONE OF THE WORLD'S MAJOR PRODUCERS OF YEASTS, ANTIBIOTICS AND ENZYMES. IT TAKES A STRONG POSITION IN THE FIELD OF INDUSTRIAL BIOTECHNOLOGY. THE FOOD PROCESSING AND PHARMACEUTICAL INDUSTRIES ARE THUS, AT THE MOMENT, ITS MOST IMPORTANT CUSTOMERS. GIST-BROCADES B.V. HAS PRODUCTION AND SALES COMPANIES THROUGHOUT THE WORLD.

European Banks and Financial Institutions Analyst

London — **Competitive Salary**

Our client, an internationally renowned organisation in the financial markets, is seeking an analyst to be an integral member of their Banking and Financial Institutions team in London, to focus on European based institutions.

The successful candidate will conduct and present financial analysis and strategic research for in-house purposes and external publication. The position also involves senior level meetings with clients, therefore excellent written and oral communication skills and the ability to represent the firm in a professional manner is imperative.

Applicants aged in their mid 20s to 30s should be of graduate calibre and will have a strong grounding in the analysis of European banks and financial institutions and an understanding of at least one European banking system. This experience may have been gained in a variety of environments including a lending or counter-party credit department, equity research, regulatory body or consultancy. Fluency in an additional European language, particularly German, would be advantageous. You will be a confident self-starter, able to work independently in a team environment.

An attractive remuneration package based on a generous basic salary will be offered to the successful candidate, which will entirely reflect experience.

Interested candidates should write to Karina Pietsch, enclosing a full curriculum vitae, at Michael Page City, Page House, 39-41 Parker Street, London WC2B 5LH. Fax 071 405 9649. Please quote reference 204905.

Michael Page City
International Recruitment Consultants
London Paris Frankfurt Hong Kong Sydney

ASSISTANT MANAGER - TREASURY

The role is an unusual mixture of Marketing and Research, but then you're an unusual individual

Bexleyheath — **c£30K + financial sector benefits**

You're a graduate with an all-round understanding of financial markets plus a good basic grounding in treasury. You're analytical and sufficiently focused to carry out in-depth research; you may well have dealing experience. As well as being comfortable with the complexities and technicalities of treasury work, you also have the interpersonal skills to build strong, productive relationships with existing and potential investors. You understand PR and marketing, are outgoing and personable.

This newly created role is sufficiently varied to offer enormous scope to someone who's flexible and has the potential to develop as our Treasury Department continues to expand. As well as assuming vital PR responsibilities for existing investors and identifying potential market opportunities you'll deal in Sterling Bond markets and co-ordinate documentation, presentations, market research and operations support.

In return for your contribution to the continued success of the UK's third largest Building Society, you can expect highly attractive rewards. Your salary of c£30K will be backed by benefits which feature 26 days holiday, contributory pension, concessionary mortgage and impressive on site facilities. Relocation assistance will be available where applicable.

If you have a broad mix of skills and you're in search of a wider canvas on which to display them, please send your CV to Sue Palmer, Personnel Department, Woolwich Building Society, Corporate Headquarters, Watling Street, Bexleyheath, Kent DA6 7RR.

Closing date for applications: 12th October 1994.

The Woolwich is an equal opportunities employer. We welcome applications from people with disabilities, from all races, religions and from both sexes.

WOOLWICH —BUILDING SOCIETY—

INVESTOR IN PEOPLE

DEVELOPING WORLD VENTURE CAPITAL

London based with overseas travel

This is a rare opportunity to build not just your own career, but wealth-generating projects in the developing world.

The Commonwealth Development Corporation (CDC) provides investment and business support for nearly 350 enterprises in over 50 developing countries. We have £1.5 billion currently invested and have planned new commitments of about £200m a year.

Investment Analysts

You will play a critical role in assessing potential investment and making key recommendations to management in the investment decision process.

You will have the opportunity to work as a finance company specialist in evaluating industrial, infrastructure or agribusiness projects in a role that offers constant variety. With accountancy and/or MBA qualifications, you have experience of working in venture capital or corporate/project finance in a major accountancy firm or financial institution. You will be familiar with financial instruments/structuring, computer modelling and writing business plans. Practical experience in relevant languages (particularly Spanish and French), and/or doing business in developing countries, would be a positive advantage. Quote Serial No. 2388.

Portfolio Executives

Our Portfolio Management Department is responsible for the identification of new business, investment and the management of our existing portfolio.

You will provide support to overseas country managers and senior management in monitoring portfolio results achieved by country sector and individual investment. You will also be required to plan appropriate measures in problem situations by investment or country, realisations, valuations, privatisations, restructurings and share listings.

You should have accountancy, MBA or economics qualifications and at least two years experience of working in a similar area. Quote Serial No. 2389.

We offer a salary of up to £30,000 dependent on qualifications and experience, and a benefits package which includes a subsidised mortgage, non-contributory pension scheme, and child care vouchers.

To apply, please write with full CV, enclosing details of current salary to: Valerie Latham, Senior Personnel Executive, Commonwealth Development Corporation, One Bessborough Gardens, London SW1V 2JQ. CDC is an equal opportunities employer.

CDC
Britain Investing in Development

CONTROL ASSOCIATES

Management Consultants Serving The Financial Community

City based Management Consultancy, require securities specialists at all levels, with a bias towards back office and operations, to work in a number of assignments.

GLOBAL CUSTODY OPERATIONS

Experienced professionals required for new and ongoing projects in this area. You should be PC literate, technically strong, a good problem solver, able to use your initiative, hardworking and diligent. At least 2 years experience in any of the following areas is necessary:

Global securities settlement * Global dividends
Corporate actions * Trade investigations
Multi currency stock reconciliation *
Agent bank reconciliation in Eastern European and Far Eastern markets *

CORPORATE ACTIONS

A senior consultant is sought with Corporate Action skills, as well as an overall grounding in Global securities operations, to help facilitate the operational transition for one of our clients. The consultant will be required to train staff and support the daily processing until the transition is complete.

SYSTEMS ANALYST/PROGRAMMER

PC specialists with specific knowledge of Clipper language required for securities taxation project.

Interested applicants please contact Control Associates on 071 929 5252, alternatively send your curriculum vitae to Alex Hindolan at our address:

Guild House, 36-38 Fenchurch Street, London EC3M 3DQ or fax us in confidence on 071 283 4466.

COMMODITIES VOLATILITY ARBITRAGE

Small trading company seeking an university educated individual to establish an inter-exchange trading desk through the use of futures and options. Candidate must be well-versed in programming (Lotus, Excel, and Code), have at least 2 to 3 years experience in running sizeable options portfolios (including delta and vega hedging), and be willing to work long hours consistent with global markets. Extensive trading experience with all N. American commodities markets (hard and soft) is requisite while Asian and European experience is helpful. The successful candidate must also be willing to research numerous markets, be highly numerate and an excellent communicator. As part of a young trading team, the individual should be between the ages of 24 and 35 and be willing to travel regularly. Fluency in French or German is a must while Japanese and other European languages is a plus.

SALARY C. £60,000 + BONUS

Please forward CV to:
J.P.E. 49 Queen Victoria Street, RMS 19-21, London, EC4N 4SA

INVESTMENT MANAGEMENT

US Stockbroker/Investment Bank requires Directors to establish new Investment Management Company.

Interested individuals or teams contact:

MR A W WILSON
Tel: 081 743 7093 Fax: 081 742 9517

SENIOR FUND MANAGER & JUNIOR FUND MANAGER

LONDON — **£ ATTRACTIVE**

MacIntrye Hudson Portfolio Management Limited requires 2 Fund Managers to assist with the expansion of this company which manages funds in excess of £140 million. Reporting directly to the Managing Director, applicants should have good private client, charity and pension fund management experience.

An excellent opportunity for people who want a challenging and rewarding career. Apply with CV and current salary package to Robert Mowbray - MacIntyre Advisory Services Limited, Ashley House, 18-20 George Street, Richmond, Surrey, TW9 1HD.

FUND MANAGEMENT

Fund Manager/Analyst required to assist and deputise for Investment Manager. Experience of U.K. equity market required and knowledge of gilt market an advantage. The successful candidate will also have to develop an ability to become involved in markets worldwide.

This new position offers a wide ranging and interesting opportunity to contribute fully to a company with a successful investment record. A competitive remuneration package will be available to the right applicant.

Applications, with a full curriculum vitae, should be forwarded to:

Miss Stella Hutchinson, Personnel Department
RELIANCE MUTUAL INSURANCE SOCIETY LIMITED
Reliance House, Mount Ephraim, Tunbridge Wells, Kent. TN4 8BL

RELIANCE MUTUAL

EMERGING MARKET RECRUITER

Seeks experienced Equity and Debt: Salespeople, Traders and Analysts presently covering the region of Latin America, Asia or Eastern Europe.

Fax resume to: Crystal Walker
(Raniere Associates) 0101-212-943-2131

INTERNATIONAL BANKING SOUTH EAST ASIA

One of the leading banks headquartered in one of the largest countries in South East Asia is conducting a thorough review of its domestic and international operations in co-operation with a prestigious international firm of strategy consultants.

The consulting firm seeks to recruit six senior international banking professionals to help lead work in key divisions of the bank on a full-time basis for a period of 2-3 years. Their role will be to work both with the senior executives of the bank on strategic and day-to-day management issues, giving advice and developing people, and to work closely with teams from the consulting firm, focusing on specific assignments.

Our client seeks highly experienced banking professionals with expatriate experience in major international organisations. Specific experience will be required in at least one of the following areas:

Planning, Retail, Treasury, Capital Markets, Trade Finance, Correspondent Banking, Joint Ventures, Management of Branch Networks, and other Financial Services (e.g. Trusts, Funds Management, Insurance).

The successful candidates will receive attractive compensation packages including a competitive salary and full expatriate benefits.

Please apply in strict confidence with full CV quoting reference IB/1349.
Telephone enquiries cannot be accepted.

Miller Leake
ADVERTISING
3rd Floor, 11 Garrick Street, Covent Garden, London WC2E 9AR

OIL ANALYST

Yorkton Securities is one of the largest independent stockbroking firms in Canada, with a highly regarded Natural Resources research division based in London. Yorkton has sales offices across Canada and also in Paris and Zurich, as well as a "listening post" office in Santiago, Chile. The Natural Resources team has a solid mining research base and, in addition to normal stockbroking, has specialised in corporate finance, especially the raising of new equity capital for early stage mining ventures around the world.

Yorkton Securities is now seeking to expand this highly successful international Natural Resources division by adding/building up an oil and gas team. As a first step we wish to recruit an oil and gas analyst, or perhaps an established team of analytical and sales personnel.

We are looking for an oil analyst/team with entrepreneurial flair. In addition to producing investment research reports, the successful candidate would be involved in field trips to carry out due diligence on new projects with a view to bringing them to the equity market, and to advise on privatisation of nationalised oil and gas companies in emerging markets.

The successful candidate may already be a recognised oil analyst/team or someone working within the oil and gas industry who, in addition to technical expertise, has worked in corporate finance.

This is an unusual and challenging position. A competitive salary is offered and, in addition, there will be the opportunity to share directly in the profitability of the venture.

Please apply in writing with a full CV to:

The Head of Research,
Yorkton Securities Inc.,
2nd Floor Salisbury House,
Finsbury Circus.
London EC2M 5RQ

YORKTON SECURITIES

PRIVATE CLIENT RELATIONSHIP MANAGER

Greek Market

London based *Exceptional package*

The Citibank Private Bank is one the world's largest and most reputable, offering its clients the full resource of an unparalleled global network.

We now seek a highly motivated Greek specialist to head a professional team based in London providing advice and support to financially sophisticated Greek clients. The objective: to build profit through building effective relationships. The method: there is considerable autonomy to develop and implement your own strategies for success.

Aged between 28 - 36, you will speak fluent Greek, and have a reasonable grasp of English. While you may not have a background in private banking, you will have a sound knowledge of banking products, proven marketing skills and the ability to communicate effectively. Success will also depend on high levels of self-motivation and integrity.

This is a rare opportunity which demands the skills of an exceptional individual. Consequently, the rewards are high - a generous basic salary will be complemented by a significant performance-related bonus and full banking benefits plus a comprehensive relocation package.

To apply, please write with career details to: Joanne Noble, Senior Personnel Officer, Citibank Private Banking Group, 41 Berkeley Square, London W1X 6NA. Previous applicants need not re-apply.

THE CITIBANK PRIVATE BANK

CITIBANK

We are an equal opportunities employer

Assistant Fund Managers/Analysts

UK

Our long established client, with £7 billion under management, is expanding its UK Equities team by the recruitment of 2 experienced graduates.

We are looking for enthusiastic, motivated people who enjoy working in an environment of open debate, friendly teamwork and accountability. Ideally, applicants should have relevant experience with an investment institution, but we are prepared to consider exceptional candidates with industrial experience.

Our client offers competitive salaries and a benefits package comprising subsidised mortgage, non-contributory pension, private medical and permanent health insurance. To apply, please write with a full CV to Lorraine Mackenzie, at the address below. Mark your envelope ref 1007 so that we may pass it direct and unopened to our client, unless you wish to advise us separately of any company to which you do not wish your details to be sent.

BERNARD HODES
SELECTION

Birmingham • Bristol • Cardiff
Hertford • Leeds • Manchester
Glasgow • Newcastle

Griffin House, 161 Hammersmith Road, London W6 8BS. (Rec. Con.)

If your accomplishments have been unlimited, why limit your rewards?

You have already accomplished more than most of your peers. You are successful, whether as a sales professional, banker, accountant or entrepreneur. In fact, your accomplishments are starting to outpace your rewards. You should consider the limitless career of a Prudential-Bache Financial Advisor.

At Prudential-Bache our Financial Advisor Training Programme develops your professional strengths and experience. You will discover how we help you build a solid client base and thoroughly learn the financial services business. And we think you will find your compensation during the training process more than attractive.

As a Prudential-Bache Financial Advisor, your compensation is determined entirely on your performance. Unlike other careers and perhaps your current profession, your financial rewards will always match your success.

To learn more about the opportunities at Prudential-Bache, if you are age 25-35, a UK national (or hold a valid work permit), please call or send your C.V.

Mr. Martin Leclerc, Executive Vice President
Prudential-Bache Securities (UK) Inc.
1-3 Strand, Trafalgar Square
London WC2N 5HE
Fax: 071-414 6941 Tel: 071-439 4191

Prudential-Bache Securities

Prudential-Bache Securities (UK) Inc. is a subsidiary of Prudential Securities Incorporated, New York, New York

CAPITAL MARKETS & FINANCIAL FUTURES

Increased activity within a variety of leading City institutions has created a demand for specialists within these market sectors. Opportunities currently include:-

Head of Equity Derivatives	**£100,000 + Bonus**
Fixed Income Sales - YEN	**£65,000 + Bonus**
US $ Bond Trader	**£55,000 + Bonus**
Primary Trader	**£50,000 + Bonus**
Italian Futures Broker	**£50,000 + Bonus**
LIFFE Floor Trader	**£40,000 + Bonus**
Off Balance Sheet Dealer	**£40,000 + Bonus**

If you are interested in the above or other positions within Capital Markets or Financial Futures please contact *Keith Snow on 071 623 1266*

Jonathan Wren & Co. Limited, Financial Recruitment Consultants
No. 1 New Street, London EC2M 4TP Tel. 071-623 1266 Fax. 071-626 5259

JONATHAN WREN EXECUTIVE

HEAD OF PROJECT FINANCE

£100,000 plus banking benefits

This is an exceptional opportunity to join a major international banking group and head its established project finance team. It is part of a structured expansion plan for the bank and allows very significant autonomy of operation.

Candidates should be accomplished financial engineers who possess a proven record of arranging such transactions within emerging markets with particular emphasis on Eastern Europe. These should include both energy and infrastructure projects.

Please contact Peter Haynes in strict confidence

Jonathan Wren & Co. Limited, Financial Recruitment Consultants
No. 1 New Street, London EC2M 4TP Tel. 071-623 1266 Fax. 071-626 5259

JONATHAN WREN EXECUTIVE

Madrid - The Opportunity for Advancement

One of Spain's leading and fastest growing full service Brokerage Houses, has openings for two suitably qualified and entrepreneurial individuals. For both posts a knowledge of Spanish is necessary, and direct expertise in the Spanish market itself would be an advantage. Salary and packages entirely negotiable.

We are an acknowledged major player in the Spanish domestic market, sector leader in derivatives, and are expanding rapidly in servicing a growing overseas clientele. We are a full service operation covering Equities, Derivatives, Government and private fixed rate markets, Underwriting and Fund Management. Our research thrust includes financial modelling through a team of Harvard method econometrists. Importantly, our macroeconomic research unit sets the standards in the Madrid market.

Public Debt Market - Head of Non-Resident Department

A Senior appointment, requiring 3 to 5 years relevant experience. The candidate will have extensive contacts in the City and among internationally orientated institutions. Specialising in Spanish Public Debt you will have the drive and experience to lead a team in servicing a growing non-Spanish clientele.

Derivatives - Dealer in Options/Futures/IRS

You will have around 3 years' experience, though perhaps not directly in the Spanish market. You will, however, be familiar with derivative instruments, their theory, strategy, risk parameters and applications. Major focus of work will be on Futures and Options market, and dealing in Interest Rate Swaps.

If you are attracted by working in one of Europe's most exciting capitals, and believe you can add in quality and dimension to our efforts, please contact us strictly via our UK Representative, at the address below. Initial informal meetings will be arranged in London.

Anthony Wands, Lion Place, Lion Street, Chichester, West Sussex, PO19 1LW

TRUST MANAGER

A Trust Manager is required to take charge of the business of a Bermuda Trust Company.

This is a demanding opportunity for a person who will principally be responsible for:-

- The administration of a portfolio of trusts with diversified assets.
- The day to day management of underlying companies.
- Liaising with clients, professional advisors and investment advisors.

Candidates should possess:-

- 7 years international trust experience
- Detailed knowledge of investments, banking settlement, treasury and related procedures.
- Excellent communication and interpersonal skills.
- A University Degree or a suitable Professional Qualification.

The commencement salary is US$100,000 (there is no personal income tax in Bermuda) together with other normal benefits.

Interested candidates should reply with a Curriculum Vitae to:-

M.L.H. Quin & Co.
P.O. Box HM 1737
Hamilton HM GX
Bermuda

Tel. 1(809) 292-7070
Fax. 1(809) 292-8899

CREDIT MANAGEMENT

(EUROPEAN BANK COUNTERPARTIES)
TO £60,000 + Banking Benefits

This is an outstanding opportunity to combine analysis of customer/industry risk and account management of counterparties who are mainly European Banks. Travelling to clients the successful candidate will conduct credit calls including pre-qualifying revenue opportunities for Product Specialists. Graduate, experienced Bank and or Corporate Credit Analysts/Managers with 8 (plus) years experience with strong knowledge of Treasury and credit products should apply. A second European language would be helpful.

Interested applicants should send their cv's to Ron Bradley.

Jonathan Wren & Co. Limited, Financial Recruitment Consultants
No. 1 New Street, London EC2M 4TP Tel. 071-623 1266 Fax. 071-626 5259

JONATHAN WREN EXECUTIVE

Manager Research Analyst

Frank Russell Company is one of the world's largest and most influential investment consultancy firms. Continuing growth has created the need for an additional manager research professional in our London office.

Investment manager research is a cornerstone of Russell's global reputation and expertise. No other organisation devotes as many resources or researches managers in such depth in as many countries as does Russell.

Reporting to the director of manager research, you will work closely with colleagues to identify investment managers who can outperform their peers, and you will work with clients to ensure their investment management arrangements are as effective as possible.

You will have a strongly analytical mind, an ability to evaluate investment professionals and their investment processes through interviews and desk research, and the confidence to present and substantiate your views to colleagues and clients alike.

A high energy level and commanding professional presence are prerequisites for this role, as are excellent written and oral communication skills. A willingness to travel to Europe and to other regions is also required.

You will be a graduate with at least a 2.1 degree and will ideally have five years or more of investment related experience. You will have attained, or be prepared to gain, IIMR designation or equivalent.

In complete confidence, please write with CV and salary details to: Anita Wilson, Personnel Administrator, 6 Cork Street, London W1X 1PB

Russell

INTERNATIONAL M&A

An expanding international firm with offices in ten countries is seeking entrepreneurial M&A professionals, with a minimum of 5 years transactions experience, to join its London, Paris, and Dusseldorf offices.

Our firm is a leader in mid-market cross border M&A.

Please send resume in confidence to the address below to obtain further information.

Write: Box A2155, Financial Times, One Southwark Bridge, London, SE1 9HL

CREDIT SUISSE

One of the world's leading banks seeks:

Credit Officers for International Business

As a result of the continued expansion of our business in several regions, we wish to identify qualified banking professionals for a variety of positions within the field of international commercial banking. Candidates must be highly motivated individuals who meet most of the following requirements:

- Successful Track Record in Commercial Banking (2-7 years experience) Including Highly Developed Credit Skills/Credit Training, Marketing Exposure and/or Risk Management Experience
- Strong Analytical Ability
- University Degree or Comparable
- Foreign Language Skills
- Global Outlook

This is a superb opportunity to join one of our highly professional Zurich-based teams. The attractive remuneration will fully reflect your experience and skills.

Interested candidates should send resumes (which will be treated in strict confidence) to:

CREDIT SUISSE,
Human Resources International,
Persi,
8070 Zurich,
Switzerland

CREDIT SUISSE
CS

CS. THE BANK WITH THE RIGHT APPROACH.

My job:

TOYO TRUST INTERNATIONAL LIMITED

An ongoing commitment to the development of our presence in the International Securities Markets has created an opportunity for a Bond Sales specialist to join a small but active multi-product team.

The successful candidate should have a solid background of Eurobond sales over a period of at least two years and a proven track record of successfully servicing an institutional client list. Fluency in a second European Language would be an advantage.

An attractive remuneration package will be tailored to match the individual's experience and expertise.

Interested candidates should write, in confidence, enclosing a detailed curriculum vitae to the following:-

B.C. DICKSON
DEPUTY MANAGING DIRECTOR
TOYO TRUST INTERNATIONAL LIMITED
36 QUEEN STREET
LONDON
EC4R 1BN

DEVELOPMENT "SUPREMO"
Treasury Systems Accounting

Strategic Orientation Base salary c£45,000 + major benefits

NEW high profile "key user" accounting role, within a high profile UK Investment Bank. Managing a small team, the initial focus of attention is to **drive the strategy forward, set the agenda for accounting systems development, agree it** with "in-house" and external suppliers – all to **facilitate the enhancement of the Treasury's accounting capability.**

CURRENT SYSTEMS cope with the present level of business, but the projected growth of the client's operations both at home and overseas, have given rise to a series of **major innovative projects in the front, middle and back offices.** The operating environment is, therefore, very fast moving and one where good people are encouraged and they achieve outstanding results.

YOUR ROLE reports directly to the bank treasury Finance Director. You will build on a heavy treasury background, with extensive systems development experience. Using your outstanding management and planning skills, you will work closely with all senior colleagues in finance and IT – as well as sitting on the appropriate steering groups to ensure that the **accounting infrastructure** for future business is provided.

FUTURE PROSPECTS **for personal growth are excellent.** *Candidates will* be qualified accountants with 3 – 5 years post qualification experience and will be well versed in a fixed income/wholesale/investment banking environment on an MTM and accruals basis. A good understanding of systems development on both mainframe and PC's is essential – together with obvious potential for career development in a flourishing milieu.

Kidsons Impey
Search & Selection Limited
29 Pall Mall, London SW1Y 5LP
Telephone: 071-321 0336
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KIDSONS IMPEY

Please telephone Peter Willingham for further information or write to him at the address opposite, quoting reference number 838B.

GLOBAL MERGERS AND ACQUISITIONS
MANAGER / EXECUTIVE

Very attractive package and excellent career development prospects

The Client, a European Bank, is one of the most prestigious and profitable Investment Banks in the world. Significant high profile success in winning major International M&A mandates together with increasing levels of activity has demonstrated the Banks commitment to developing and building on this achievement. To facilitate this continued growth the client has identified the need to recruit additional members of the London team at both Manager and Executive level.

The roles, working within a dedicated and sector focused environment, will concentrate on all aspects of deal organisation and execution within the Banks International network together with a significant input to the overall running of the division. The high profile that this division enjoys within the Bank offers excellent career opportunities to those able to demonstrate a committed and resourceful approach.

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For further information in complete confidence please contact Julian Davey or David Goodrich.

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FT
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We would be prepared to consider people whose primary experience lay outside journalism, as long as they have had work published in newspapers or magazines.

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Write with full details and samples of published work to: Robin Pauley, Managing Editor, Financial Times, One Southwark Bridge, London SE1 9HL. Deadline for applications: October 21 1994.

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Interviews: October 27th and 28th. Applications, with a full c.v. and daytime contact number, by 12th October to: Liz Watson, Newchurch & Company Limited, 12 Charterhouse Square, London EC1M 6AX.

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London

Our client, a leading US financial institution, is seeking a highly experienced professional to join its Corporate Finance Media team responsible for developing media corporate finance coverage in Europe.

The successful candidate will be educated to Masters degree level with a minimum of 5 years' experience in corporate finance. This experience must include execution of media transactions. They must have well-developed interpersonal and communication skills and be fluent in at least one European language apart from English.

Please send your cv with full details of your education and experience which will be forwarded to our client unopened. If there are any companies to whom you do not wish your application to be sent, these should be listed in a covering letter and the envelope marked for the attention of the Security Manager. **Ref: H7063/FT, PA Consulting Group,** Advertising and Communications, 123 Buckingham Palace Road, London SW1W 9SR

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Reply: **The Secretary (Ref. ED),**
Davy Stockbrokers,
Davy House,
49, Dawson Street,
Dublin 2.

ACCOUNTANCY COLUMN

'True and fair view' in need of refurbishment

Jim Kelly on why a guiding principle is more relevant than ever in today's business climate

To give a "true and fair view" is the statutory objective of UK financial reporting and, via the Fourth European Directive of 1978, the leading accountancy principle in the European Union. Like most guiding concepts, however, it defies agreed definition.

Unofficial attempts to pin it down swing wildly between the 13 paragraphs once hammered out by the technical partners of the UK's Big Six accountancy firms to more informal attempts to sum up its flexible nature as a "make-believe compass".

Standard setters, accountants and academics from nine countries met in Oxford last week to consider "The true and fair view: a European retrospective". Like most useful conferences it transcended its title and discovered, oddly, that the real value of the true and fair view may lie in its future use by regulators of financial reporting.

There was also some agreement that the real value of this principle to accountancy within the EU could lie in its ability to rise above legal definition and provide a principle which can be used in any country at any time.

The need to revitalise the principle is obvious to anyone who takes a glance at the many companies which have collapsed with no warning signs from auditors who examined their health barely a few months before. The papers retrospectively show that the auditor was very often aware of many of the signs of impending doom – but said nothing publicly.

Before looking at some of the views expressed at Christ Church at the conference, which was organised by the Chartered Association of Certified Accountants, two questions need to be answered. Why true AND fair? And how is true and fair incorporated into the Fourth Directive?

To answer the first question, there are various illustrations. Consider the captain of a ship who records in the log that the first mate was drunk on Monday. In revenge the first mate records in the log on Tuesday that the captain was sober. This is true but hardly fair.

The answer to the second question is more complicated. The European Fourth Directive's second article says that accounts should be drawn up according to generally accepted accounting practices. If this fails to give a true and fair view then notes must be added. In exceptional circumstances where these disclosures are still insufficient, the true and fair view can be used to "over-ride" other rules.

Again an illustration helps. The accounts should be a signpost to a true and fair view. If the signpost points in the right direction but fails to give you enough information to get to the destination then additional information is needed. If it points in the wrong direction to start with, then the "over-ride" comes into play.

The conference's principal speaker was Mrs Justice Arden, the co-author of an influential legal opinion on the true and fair view. She saw the principle as useful in the last resort to resolve disputes in "penumbral" areas of the law: "When you have rules there are always going to be problems at the edges and you need something like the true and fair view to resolve them."

She said that the definition of true and fair would be tested in the courts and that the final decision of the judge would rest on expert evidence. The opinion of the Accounting Standards Board would carry particular weight.

Karel van Hulle, head of accounting at the European Commission, revealed that the inclusion of the true and fair view in the directive had been initiated by the Dutch during the drafting process. He said that its main role in the European context was as a safeguard to over regulation: a principle to stand against a system of prescriptive rules – the so-called "cookbook".

The need for revitalisation is obvious to anyone who takes a glance at the many companies that have collapsed with no warning signs from auditors who examined their health barely a few months before

Van Hulle said that he was aware of about a dozen examples within the EU where the true and fair over-ride had been used, but hoped the Fourth Directive would provide a flexible regime: "We must allow companies to be creative within limits."

Graham Stacey, with 15 years practical experience of the true and fair view as an auditor, was one of the technical partners who originally tried to define the true and fair principle. He said the concept rested on providing information to shareholders which was sufficient in quantity and quality to meet their *reasonable needs and expectations*. He now saw a case for meeting the needs of other users of accounts.

At the heart of this definition lies reasonable expectations – a concept which changes over time and is often moulded by the standards set by regulators. The content of the accounts may alter but the principle remains.

Stacey doubted that true and fair was a useful tool for practitioners at all: "The dominance of rules brings us towards being a cookbook country." However, the principle would be relevant if the regulators, such as the Accounting Standards Board, altered public expectations of what accounts should tell them.

Allan Cook, of the ASB, said that true and fair had many definitions, all of which had a use. For him, its most important was to give direction and authority to development in reporting requirements. He also saw it as a signpost to commercial reality, a reporting obligation on preparers, and a brake on the proliferation of rules. Within Europe he felt that the principle could be a "subtle instrument of change".

Looking ahead, Doreen McBarnet, from the Oxford Centre for Socio-Legal Studies, said that historically the more detailed rules became, the easier it was to avoid them. Some terms were best left undefined.

A culture of rules gives rise to "creative compliance", she said, and could stimulate the need for regulators to develop a system of "creative control". But the use of "open textured" principles allowed the use of discretion on the part of professionals.

Christopher Whelan, of Warwick University Law School, analysed the potential role of the Financial Reporting Review Panel, the ASB's sister body, which has the power to reprimand companies or take them to court if they breach standards. He saw the true and fair view as a "tool for the enforcers".

The panel's problem, said Whelan, was that if it took companies to court then a body of law would build up which would define the principle and reduce its effectiveness. If it was bounded by law it would fail.

Professor Anthony Hopwood, from the London School of Economics, and conference organiser with Dr Peter Walton, said the tone had been "conciliatory" but illustrated the profound ignorance which still existed about different accounting cultures.

He felt that the true and fair view was part of the "archaeology of accountancy", laid down in the past as part of a *laissez-faire* economic culture. It was now capable of being excavated and providing a modern link between accounting standards and the law.

Finally he asked: "Are we asking too much of accountancy?". He questioned the role of accounts as the only source of information in the market and wondered if alternatives, like newspapers less inhibited by libel or ownership, might not play a bigger role.

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Tel: 071 371 9476 Fax: 071 371 9478.

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In order to facilitate the execution of this strategy, the organisation is now keen to appoint highly *capable finance professionals who will be* responsible for the implementation, management and development of a number of initiatives to enable the business to understand and interpret market demand and to respond promptly to the changing conditions it faces across every aspect of their operations.

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The control, management and support of business performance at Divisional level is a key requirement of this appointment. *Providing an objective appraisal of key* financial indicators, including the production of relevant and business driven financial information, is critical to enable senior management to clearly manage and drive the business from a strategic prospective.

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Taking primary responsibility for the financial management of key subsidiary operations you will focus on providing management with a range of information that will direct the business strategically but also provide all the necessary financial indicators to maintain *control of the business on a day to day basis.*

Working closely with senior management you will become part of a multi-disciplined team which will have direct responsibility for the bottom line performance of the business as well as ensuring that all procedures, controls *and initiatives are compatible with the strategic* direction of the Group.

These positions demand the talents of graduate accountants aged 28-35 who will have worked *in an organisation characterised and driven* by a client focused sales and marketing approach. You must have the necessary personal qualities to challenge senior executives at the highest level and be keen to work in a commercial environment offering unparalleled opportunities to individuals who are striving *for excellence.*

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Film is the major provider of film and lightweight video facilities for Television programmes based in London, with a turnover of £14 million and a staff base of 200.

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Directly accountable to the Head of Group, you will contribute to policy formulation, be the financial controller of the operation and play an active part in the management team through *th provision of strong financial leadership.*

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* the management and motivation of finance and systems team.

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For an information pack and application form, please contact (quote ref. 16741/F) **Bernard Buist, Chief Accountant, Production Resources, Room 6034, BBC Television Centre, *Wood Lane, London W12 7RJ. Tel: 081-576 4968.***

Application forms to be returned by October 14th.

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It is envisaged that the successful candidate will be:

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The company is offering a salary and benefits package consistent with its position as a large successful international plc.

Interested applicants should contact **David Burton** at **Robert Walters Associates, 25 Bedford Street, London WC2E 9HP.** Telephone 0171-379 3333. Fax 0171-915 8714.

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QUALIFIED ACCOUNTANT - LONDON BASED

A recently qualified accountant is required for the London Head Office of the Company. Candidates should be computer literate and should ideally have some experience of taxation matters, preparation of annual reports, budgeting, vat and company secretarial duties. In general, an "all-rounder" with a good examination pass record is required, who is familiar with the workings of a small public company. Candidates should be prepared to work overseas for short periods. Terms and conditions will be negotiable.

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An accountant is required to assist with the accountancy function of the mining and township operations. Applicants should have experience of computerised accounting systems and be able to function energetically on a remote mine site without close supervision. Previous mining experience would be an *advantage but not essential and an ability to assess* local accounting systems and integrate them into the Company's system should be demonstrated. A one year renewable single status contract, with an attractive salary, leave conditions and general conditions of employment are offered.

In the first instance, a written career history should be sent to:

Dennis Thomas, Thomas Mining Associates,
PO Box 2023, Bournemouth, Dorset BH4 8YR, UK
Tel/Fax: 0202 751658

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*Interested candidates should write to **Mark Rowley** or **Michael Herst** enclosing a detailed curriculum vitae quoting reference MR502 at Harrison Willis, Cardinal House, 39-40 Albemarle Street, London W1X 3FD.*

Computer People

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Applicants must have worked in a financial control position within a manufacturing environment, and held responsibility for the production of management accounts and related information, as well as having *developed costing systems. Ideally aged c30 and ACMA qualified, familiarity with PLC reporting* requirements is preferred and applicants must have the intellect and ability to contribute to a business at a strategic level. This is a "hands-on" role, requiring a high degree of commitment and intellect and good interpersonal skills.

Career prospects are excellent within the company and the group, which has a reputation for developing and promoting its people. Applicants should write, enclosing full career and salary details, quoting reference B/503/94, to David Gibbs.

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The successful candidate is anticipated to be aged 26 to 30, possess an accountancy and/or treasury qualification and to be computer literate and highly numerate. Two years of international treasury experience would be a definite advantage. The ability to analyse complex issues, however, is more important than depth of direct experience. Drive and enthusiasm are essential qualities and, as the person will interact with both company management and the financial community, good communication skills are a pre-requisite.

Please write, enclosing full Curriculum Vitae to:
Ian Magness

RICHARD JAMES ASSOCIATES
PREMIER HOUSE, 10 GREYCOAT PLACE, LONDON SW1P 1SB.
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- managing the Pensions Department, which is responsible for the preparation of accounts and pension calculations;
- liaising with actuaries, investment managers and other professional advisers as required.

The successful candidate will operate with a high degree of autonomy, and will also travel to sites in the UK to discuss pension issues with the membership.

Candidates ideally should have a background in finance or accountancy, as well as pension schemes experience. At least five years in the pensions industry is required. Personal maturity, well developed communication skills and a high degree of computer literacy are also prerequisites for the role.

Comprehensive relocation facilities are available where appropriate. Interested applicants should forward a detailed CV quoting reference 204692, to Tim Smith or Elizabeth Arthur at Michael Page City, 39-41 Parker Street, London WC2B 5LH. Fax: 071 405 9649.

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London Paris Frankfurt Hong Kong Sydney

FINANCE DIRECTOR

BROADLY BASED COMMERCIAL ROLE WITHIN THE MAJOR DIVISION OF A YOUNG, RAPIDLY EXPANDING PLC

CHESHIRE — **c£45-50,000 + CAR, GENEROUS BONUS AND SUBSTANTIAL BENEFITS**

- A superb opportunity to join a highly regarded manufacturing division of a rapidly expanding plc: a leader in its field, domestically and internationally, with a current turnover of c£45m and substantial growth prospects.
- There is huge scope to upgrade and develop the finance function and to play a key role as a member of the young and ambitious management team during this challenging period in the company's development.
- Initial tasks will be to strengthen the finance function by introducing greater rigour into the cost systems and disciplines, and to provide strong financial leadership.
- Full participation in the strategic development of the business, including the evaluation and subsequent integration of acquisitions and joint ventures.
- You will be a business-driven, instinctively commercial, qualified accountant, probably aged 30-40. Your experience will have been gained within a professional, progressive environment with strong financial controls and exacting reporting standards.
- Experience of a manufacturing/production environment, using state of the art costing and control techniques, is essential.
- Successful record of implementing and enhancing financial and administrative IT systems.
- Demanding role requiring strong leadership skills, absolute financial professionalism and a high degree of motivation. Achievement orientated. A good grasp of detail but capable of adding value to strategic thinking. Tough and resilient.

Please apply in writing with full career and salary details, and quoting reference 191, to:

David Loots, David Loots Associates,
Furness House, Salford Quays,
Manchester M5 2XJ.

Tel: 061-876 0866. Fax: 061-876 0843.

DAVID LOOTS associates ltd Recruitment Consultants

Regional Audit Controller

Multinational Healthcare Group

London — **c. £65,000**

Our client is a diverse international healthcare group that focuses on three main areas: Diagnostics, Therapeutics and Orthopaedics. With over 40 companies worldwide and products sold in 150 countries, the group is well positioned to achieve sustained growth in an increasingly competitive environment.

A group internal audit function has recently been established and an accomplished audit professional is required to cover the European and Asia-Pacific regions.

Key tasks will include:

- leading and managing operating company audits aimed at adding value by recommending improvements to the overall management control process;
- seeking opportunities for improvement in the efficiency, effectiveness and economy of systems and procedures;
- recruiting, developing and managing a small audit team and managing sub-contract audit personnel in specific countries;
- building positive relationships with operating company management, fostering awareness and appreciation of control and compliance.

Candidates are likely to be aged in their mid-thirties and will be graduates and ACA qualified. Audit management experience will include substantial exposure to an international environment where high professional standards are acknowledged and delivered. This could have been gained within the profession or a corporate environment.

Excellent communication skills, sound technical ability and a resourceful approach are essential. Coverage of the European and Asia-Pacific regions will entail approximately 60% international travel.

If you are interested in discussing this exciting opportunity, please send a full CV in confidence to GKRS at the address below, quoting reference number 327J on both letter and envelope, and including details of current remuneration.

GKRS
SEARCH & SELECTION
CLAREBELL HOUSE, 6 CORK STREET, LONDON W1X 1PB. TEL: 071 287 2820
A GKR Group Company

UK Financial Controller

acuson COMPUTED SONOGRAPHY

c £35,000 + car + benefits
West London

Acuson is the world leader in the design, manufacture and marketing of medical diagnostic ultrasound systems.

The sales and distribution network is such that the company is constantly developing its existing and emerging markets ensuring that their products are used throughout the world.

The thriving UK operation, based at Stockley Park, is recruiting a new Financial Controller to head up the accounts function and contribute fully to the further commercial development of the business.

The Role
There are three critical areas of responsibility:

- implementing and enforcing appropriate internal controls.
- supplying timely and accurate management information for both the UK Managing Director and the US Corporate Head Office.
- providing financial advice and support during the process of tendering for and the negotiating of contracts.

The Candidate
Because of the strong commercial nature of this role candidates need to have the flair and ambition to contribute fully to all aspects of the business.

Applicants, who must be qualified and working in a commercial environment, should send their cv to **David Browlow** at
Douglas Llambias Associates,
410 Strand,
London WC2R 0NS.
Fax: 071-379 4820
quoting ref FT290994

DOUGLAS LLAMBIAS RECRUITMENT CONSULTANTS

Head of Internal Audit

Business Services Sector

London • c. £40k + Car + Benefits

Our Client is a highly respected business services group. Turnover is in excess of £300 million and is growing both organically and by acquisition.

Based at Group Head Office, the challenge of this newly created role is to establish and develop an effective and high quality financial and operational audit function across each of the operating businesses, to which end you will be expected to recruit, train and manage a small team.

A graduate and Chartered Accountant, your training will probably have been gained with a big six firm or within the audit function of a substantial group. A practical knowledge of control procedures and review techniques is essential together with previous experience of auditing computer based systems. An assertive and strong character with the interpersonal skills to persuade and communicate, you will possess the stature and credibility to influence change proactively.

This is an outstanding opportunity for an audit professional. To apply please write, quoting reference no 110/002, to Clare Stronge, Witcher-Stronge Limited, Resourcing Consultants, Tarrant House, Christchurch Road, Virginia Water, GU 25 4BE.

WITCHER-STRONGE LIMITED

GROUP ACCOUNTANT

Outstanding opportunity for a young ACA

London

£31,000 + bonus + car

This is a unique opportunity to join a top French multinational with rapidly expanding and varied UK business interests. Our client is the UK holding company for one of the group's major sectors (T/O £150m) and is also the corporate representative for the parent company in this country.

Following a promotion, they are now seeking a Group Accountant who will be a key member of their small, high-profile Head Office team. The successful candidate will report to the Group Controller and liaise closely with the UK subsidiaries and the Paris HQ. The focus will be on consolidated reporting, including financial and management accounts, forecasts, budgets and analytical reviews. You will also be involved in tax and treasury work and in ad-hoc projects for Board members.

Candidates must be high-calibre, French speaking, Chartered Accountants, who have qualified in the last three years. In your mid/late 20s, you will have trained in a top international practice and have had experience of auditing major groups. An additional period working in industry or in France would be advantageous, but is not essential. For a self-assured, ambitious team player, this is a challenging role and a stepping-stone to more senior appointments within the group.

Please write in confidence, with full career and salary details, to Paul Carvosso, MSL International Limited, 32 Aybrook Street, London W1M 3JL. Please quote ref: A54F79.

MSL INTERNATIONAL
EXECUTIVE RECRUITMENT CONSULTANTS

LONDON 071 487 5000 · BIRMINGHAM 021 454 6664 · GLASGOW 041 248 7700 · LEEDS 0532 454757 · MANCHESTER 061 835 1772

FMS
FINANCIAL SEARCH & SELECTION SPECIALISTS

FINANCE MANAGER

Flexible, Hands-On Individual, Able to Make An Impact

MIDDLESEX
TO £35,000
+
CAR
+
RELOCATION

Our client, a £45m turnover subsidiary of a £multi-billion international Group, has recently relocated and totally reorganised its accounting function within the UK.

In keeping with the Group's plans for further investment in the UK operation and in order to build on and further develop its management reporting and commercial analysis capabilities; they are seeking to appoint a Finance Manager who will develop the internal accounting to assist operational management with decision making.

Reporting to the Finance Director and managing a small team of part qualified staff, areas of responsibility will include:-

- Costing - particularly with reference to long-term contracts.
- Management Accounting - re-establishing, developing and enhancing, budgeting, forecasting and monthly management reporting, including variance analysis for internal and Group Management.
- Commercial Support - liaising with operational and group financial management undertaking ad-hoc analysis in support of commercial decision making.
- Systems Development - enhancing information, utilising the existing computer systems and being instrumental in the development of new systems which are currently being considered.

Suitable candidates must be capable of quickly coming to grips with the day to day issues of this key role and have the potential to grow with the expansion of the UK operation. Wider career development opportunities in the Group are excellent. You must be able to demonstrate:-

- Broad experience including most aspects of accounting (contract costing in particular would be an advantage).
- A credible presence and strong influencing skills.
- Previous experience of developing and enhancing management reporting and systems.

Individuals interested in this outstanding career opportunity should write enclosing a current CV together with salary details to Shirley Knight at FMS, 5 Bream's Buildings, Chancery Lane, London EC4A 1DY or phone her on 071 405 4161 (081 892 0454 evenings/weekends). Closing date: 11th October 1994.

A MEMBER OF THE PSD GROUP

FT/LES ECHOS

The FT can help you reach additional business readers in France. Our link with the French business newspaper, Les Echos, gives you a unique recruitment advertising opportunity to capitalise on the FT's European readership and to further target the French business world. For information on rates and further details please telephone: **Philip Wrigley on +44 71 873 3351**

Divisional Finance Director

Humberside **to £50,000, car, bonus, benefits**

Outstanding opportunity for talented commercial finance professional to support Divisional Chief Executive and play prominent role in executive team focused on maximising ongoing profitable development. Highly international, c £80 million turnover market leading division of publicly quoted U.K. group with exceptional record of acquisitive and organic growth and ambitious future plans.

THE ROLE

• Total involvement in strategic planning and development. Advise and support subsidiary managing directors. • Maintain and develop financial planning and reporting procedures. Enhance budgeting, modelling and forecasting techniques • Provide commercial and financial advice on merger and acquisition activities and capital projects.

THE QUALIFICATIONS

• Graduate, qualified, accountant. Mid/late thirties. Computer literate. • Previous multi-site experience in chemicals with decentralised profit centre structure and stringent financial controls. • Commercial, pro-active, challenging manager capable of significant strategic input and with excellent inter-personal and presentation skills. Performance driven.

Please reply in writing to 4th Floor, EMCO House, 5/7 New York Road, Leeds, LS2 7PL enclosing a full curriculum vitae and quoting Reference BHM10085. Telephone 0532 467033, Facsimile 0532 433691.

SEARCH & SELECTION

Finance Director

EUROPE BASED **£40,000+BONUS+CAR+BENFITS**

This listed British food and agribusiness group has a strong international focus and holds leading positions in the market. Operating in more than 70 countries in Europe, the Americas, Africa and the Far East, this group is dedicated to quality of product and excellence of service. It is committed to growth through constant improvement, cash generation and focusing corporate strategy on core businesses.

As a result of its continuing commitment to improved efficiency, an exciting and challenging opportunity has arisen for an outstanding individual with one of their international businesses. Initially the role will involve a 2 year secondment to their agribusiness subsidiary in Denmark. The position includes complete ownership of all financial and management information and, more importantly, playing a major part in the strategic direction and growth of this business. There will be considerable interface with the divisional board in the UK. At the end of the 2 year period it is anticipated that the individual will return to the UK to assume a senior management role with even greater potential to influence bottom line profits.

The successful candidate will be a graduate qualified accountant who is over 30 and who can demonstrate a track record of success in a large company environment. The ability to manage a small team and think commercially are vital, as is the ability to influence and implement major IT projects from start to finish. A working knowledge of Danish is not essential, but would be advantageous.

This is an excellent opportunity to contribute to the success of a growing company and career prospects within the group are outstanding. The overseas package will be based on a UK salary of £40,000 with substantial benefits.

Interested applicants should write, enclosing a full cv, to Jo McEachran or Mark Gilbert at the address below.

Alderwick Peachell

Alderwick Peachell Limited, Recruitment Consultants, 125 High Holborn, London WC1V 6QA. Tel: 071 404 3155. Fax: 071 404 0140.

OTFORD GROUP LIMITED

c £40,000
+ benefits
Kent

GROUP FINANCE MANAGER
DIRECTOR DESIGNATE

The Otford Group has devolved accounting responsibilities to its ten operating divisions, the principal activities of which are the manufacture of technical plastic mouldings and the distribution of motor cars including Ferrari, Porsche and BMW franchises. The Company now seeks a Group Finance Manager who will be able to demonstrate ability to succeed the present finance director on his retirement in 1996.

Key responsibilities include tight financial control of all the Group's operations and an ability to apply technical skills to improve the performance of each of the divisions. All the activities of the group are computerised and the Group Finance Manager will initiate and control developments in information technology.

The head office is in Sevenoaks but frequent visits to the divisions will be required to provide training and controls for the varied activities of the Group.

The successful candidate will be a qualified accountant, age 35-45 with a proven track-record in industry who can demonstrate an ability to *communicate and persuade. Experience in* targeting, negotiating and integrating acquisitions is desirable.

If you believe that you have the qualities to fulfil this role, please send comprehensive career details, including salary history and day-time telephone number to R S Tomlinson, Finance Director, Otford Group Limited, 30 Pembroke Road, Sevenoaks, Kent TN13 1XR.

FINANCIAL ACCOUNTANT - EUROPE

HERTFORDSHIRE **EXCELLENT PACKAGE**

The Company

Sun Chemical is recognised as the world leader in the graphic arts materials industry. With locations in each Western European country and a dominant presence in North America we have now embarked upon establishing a presence in Eastern Europe.

The Role

Will embrace financial responsibility and asset management for our operations in Eastern Europe. Responsibilities will vary but to include cash flow, financial control, currency exposure, budgetary control and profit monitoring.

The person will report to the Group Finance Director - Europe and will form part of a small team.

The Person

The appointee will be expected to prepare financial information in a precise and meaningful way, to focus on the issues which effect profitability and the control of assets.

The person will be a qualified accountant in his/her late twenties with an enquiring mind. Familiarity with U.S. reporting whilst having an understanding of differing European cultures will be an advantage.

Sun Chemical owes its success to the quality of its people and there are excellent opportunities for genuine career development for the right person.

Please send full curriculum vitae stating salary to the:

Group Financial Director - Europe
Sun Chemical Europe Limited
Cow Lane
WATFORD WD2 6PL

The Top Opportunities Section
For senior management positions. For information call:
Philip Wrigley
+44 71 873 3351

BSG
RESOURCE DEVELOPMENT

FINANCIAL & MANAGEMENT SYSTEMS CONTROLLER

Central London
Salary Negotiable

Business Systems Group is enjoying a real success story. We are an established and energetic company within the computer industry, with a turnover of £30m, which has doubled each year. Established as the leading business partner in London, we supply multi-vendor business information systems and a range of high level technical services which include consultancy, application development, systems integration, training, engineering and maintenance.

Our next chapter involves a new phase of expansion and it is clearly recognised that any further growth must have a firm foundation in excellent financial and management systems. As a result, we are looking for an accomplished senior manager to bring his/her discipline to the company, from the top.

The role will provide tremendous scope and freedom of action covering all aspects of the company's business. You will set your own agenda, exploring each area of the operation, identifying priorities and creating systems and procedures which cut costs and improve efficiency. In addition, you will provide clear direction to the finance and administrative teams.

You are probably a chartered accountant, with at least ten years experience, half of which has been at senior management level. We will require energy and your total commitment outside normal office hours. Your track record should include achieving rapid and profitable growth in an SME and it is likely that you are now working in a company in excess of £50m turnover. You should combine the stature required to function as a senior manager with a dynamic, investigative spirit and astute business skills. Added to this we are looking for the ability to deliver working practices and methods which make a real impact on the bottom line.

In the first instance please write enclosing your CV to Richard Ribbons, BSG Resource Development, Beech House, School Lane, Milton, Abingdon, Oxon OX14 4EH

STRICTLY NO AGENCIES PLEASE

LONDON		OXFORD
ACCOUNT MANAGEMENT & SALES SYSTEMS INTEGRATION CABLING	NETWORKING FACILITIES MANAGEMENT ENGINEERING & MAINTENANCE SUPPORT	SOFTWARE DEVELOPMENT CONSULTING TRAINING

FINANCIAL CONTROLLER/ SYSTEMS ACCOUNTANT

£30,000 - £35,000 + Benefits KINGSTON, SURREY

KF Group plc, a profitable, independent electrical and computer retailer is seeking to appoint an *outstanding, ambitious individual to this important* position at the Group Head Office: annual turnover is in excess of £75 million and year on year growth is currently running in excess of 30%, as a result of an aggressive store opening programme.

Reporting to and working closely with the Group Finance Director, your role will encompass accounting, financial reporting and administration. Key responsibilities will include the day to day management of a busy Finance department, and the review, development and implementation of financial control systems throughout the operation. Close liaison with the internal computer department will be required.

The successful candidate will be a qualified accountant, with at least five years proven financial and management experience, preferably in a multi site environment. This must be backed by strong communication, management and PC skills (knowledge of SQL would be a advantage). Ability to perform effectively under pressure and make things happen in our "hands on" culture is essential.

If you want a secure future with a company with clear direction and strong management, send your CV together with a covering letter clearly stating how you meet the above requirements to:

Ray Selman, Personnel Manager, KF Group plc, 1 Wheatfield Way, Kingston-upon-Thames, Surrey KT1 2TU.

Equity Derivatives • Fixed Income • Interest Rate Swaps/Derivatives

Global Markets Financial Control

First class opportunities for qualified accountants with first hand experience

City

As one of the world's premier international banks, J.P. Morgan's guiding principle is to conduct 'only first class business, and that in a first class way'.

This certainly applies to our trading operations in global markets – and the quality of business support delivered to the dealing room from the Global Markets Financial Control team. In monitoring underlying risk positions, reviewing daily profit and loss and supporting the introduction of new products, this exceptionally talented team works in a close relationship with traders and provides the objective view – not only on a daily basis but also on a longer term strategic level.

Internal promotions and business expansion have created three new opportunities for degree-qualified accountants experienced in product-specific financial control with a high-ranking investment bank. You must have a minimum of two years' experience with a leading participant in one of the following market sectors:

■ Equity Derivatives ■ Fixed Income ■ Interest Rate Swaps/Derivatives

At J.P. Morgan you will be joining a peer group of the very highest calibre, and your intellectual agility must be matched by strength of character and depth of commitment. In return for these qualities and skills, we can promise exceptional scope for career development, both within London and internationally. Remuneration will not be a hindrance in our determination to attract and recruit the best in the business.

If your skills match our credentials, please write with your cv to Paul Barry, CTO Financial Recruitment, J.P. Morgan, 60 Victoria Embankment, London EC4Y 0JP.

JPMorgan

FINANCIAL & ADMINISTRATION DIRECTOR

Hampshire *Circa £30,000 +Bonus + Car*

CONFIDENTIAL

Our client, a subsidiary of a British plc., with significant interests in the engineering sector, are seeking to appoint a Finance and Administration Director for one of their manufacturing subsidiaries.

The business, currently with a turnover of c.£3.0 million is growing rapidly and requires a young qualified professional to manage its financial performance, administration and the material control function.

Candidates, aged 28 to 35, ICMA qualified, with experience in a manufacturing environment, will be seeking an opportunity to join a senior management team with a commitment to total quality and will have the necessary attributes to fulfil a key role in developing the growth opportunities for the business.

Please forward a full C.V. quoting reference number FAD/2594 to:

I&S Limited, 24 Swan Street, Loughborough, Leicestershire LE11 OBL.

All applications will be treated in the strictest confidence. Please note on a separate sheet, any company to whom your details should not be forwarded.

Assurance Consultants

South East **to £50,00 + Benefits**

Our client is a leading world-class management consultancy in the UK with over 650 professional staff and a client portfolio which includes many of the world's most successful businesses.

They have a track record which is second to none - a reputation of success par-excellence across the whole spectrum of industries.

You will be expected to work across a wide range of consultancy assignments providing commercial advice, compliance and consultancy using the latest graphics and IT tools. Successful candidates will be qualified accountants with a good degree, and a minimum of 1-3 years computer audit experience.

You will be working in a stimulating international environment contributing to strategy and technology based assignments. You will be able to find cutting edge solutions to enhance our clients business performance.

If you are keen to work in an environment where challenges will extend your capabilities please contact **Christine Trybus** on **0442 231691** days or 0423 270455 eves weekends.

Alternatively you can write to her at:

Executive Recruitment Services, Boundary Way, Hemel Hempstead, Herts HP2 7RX Fax 0442 230063

APPOINTMENTS ADVERTISING

Appears in the UK edition every Wednesday & Thursday and in the International edition every Friday. For information onadvertising in this section please call:
Philip Wrigley on +44 71 873 3351

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